

[Dr. M. M. Das]

will give due consideration to the views that have been expressed on the floor of this House. Sir, as I have said, it is premature, and it is to some extent prejudicial, to entre into a threadbare discussion at this stage about the individual provisions of this Bill. I do not think the present occasion is opportune for that purpose. The Bill is being sent to the Joint Committee and the Joint Committee will examine in great detail the provisions contained in it, and will draw their own conclusions. The Joint Committee will consider the suggestions made by hon. Members and I have no doubt that the different provisions of this Bill, especially the controversial ones, will come through the Joint Committee in a much better and more acceptable form.

Sir, I commend this motion to the House for its acceptance.

**Mr. Speaker:** I will first put the amendments to the vote of the House. The question is:

That in the motion—

for "Shrimati Sucheta Kripalani" substitute "Shri Ramji Verma".

*The motion was adopted.*

**Mr. Speaker:** The question is:

That at the end of the motion the following be added:

"This House also recommends to the Rajya Sabha that the said Joint Committee be instructed to report on or before the 16th August, 1956."

*The motion was adopted.*

**Mr. Speaker:** The question is:

"That this House concurs in the recommendation of Rajya Sabha that the House do join in the Joint Committee of the Houses on Bill to amend and consolidate the law relating to Copyright made in the motion adopted by

Rajya Sabha at its sitting held on the 16th February, 1956 and communicated to this House on the 21st February, 1956 and resolves that the following members of Lok Sabha be nominated to serve on the said Joint Committee, namely, Shri B. S. Murthy, Shri N. C. Laskar, Shri Nageshwar Prasad Sinha, Shri Fulsinhji B. Dabhi, Shri Joachim Alva, Shri T. S. Avinashilingam Chettiar, Shri S. V. Ramaswamy, Shri Birakisor Ray, Shri D. C. Sharma, Shri S. C. Samanta, Shri Gurmukh Singh Musafir, Shri M. Hifzur Rahman, Dr. Suresh Chandra, Shri C. P. Mathew, Shrimati Tarkeshwari Sinha, Seth Govind Das, Shri Rohanlal Chaturvedi, Shri C. R. Basappa, Dr. Lanka Sundaram, Shri U. M. Trivedi, Shri V. G. Deshpande, Shri N. B. Chowdhury, Shri Sadhan Chandra Gupta, Shri Bahadur Singh, Shri Frank Anthony, Shri Ramji Verma, Shri M. S. Gurupadaswamy, Shri V. Veeraswamy, Dr. Mono Mohon Das and Maulana Abul Kalam Azad.

This House also recommends to the Rajya Sabha that the said Joint Committee be instructed to report on or before the 16th August, 1956."

*The motion was adopted.*

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#### SECURITIES CONTRACTS (REGULATION) BILL

**The Minister of Revenue and Civil Expenditure (Shri M. C. Shah):** I beg to move:

"That the Bill to prevent undesirable transactions in securities by regulating the business of dealing therein, by prohibiting options and by providing for certain other matters connected therewith, as reported by the Joint Committee, be taken into consideration."

**Shri U. M. Trivedi (Chittor):** Sir, I rise on a point of order. I would like to know why today the Bills are not placed on the Table from where we used to get them before?

**Mr. Speaker:** I do not know how the hon. Member is saying that. I am informed by the office that the papers are there as usual.

**Shri U. M. Trivedi:** I have just been there. I did not find any copy. I had to get one from the Table Office myself. There is a big table. The man there is going on fixing the letters to show how the work in this House is progressing. There are no Bills on the table.

**Mr. Speaker:** All right, I will find out again. The hon. Member wants a copy of the Bill and it is being sent for. I will see that sufficient copies are placed on the table and if they are exhausted more copies will be placed from time to time.

**Shri M. C. Shah:** Sir, the House will remember that motion for the reference of the Bill to the Joint Committee of the two Houses of Parliament was adopted by this House on the 28th November 1955. The Rajya Sabha concurred in this motion on the 5th December. The Joint Committee then began its hearings on the 20th December and altogether held seven sittings. During these sittings, the Committee took into consideration several notes and memoranda, which had been submitted to it and also heard the evidence tendered by the representatives of the Bombay Share and Stock Brokers' Association, Ahmedabad and the Society of Assistant Members of the Stock Exchange, Calcutta. The report of the Committee was signed on the 27th February 1956, and then duly presented to Parliament. Notwithstanding the despatch with which the Joint Committee thus completed its task, it was not, unfortunately, possible for the House to take into consideration its report in the last session of Parliament. The House will remember the

importance which we attach to this measure. The Bill is the first all-India legislation on this subject and attempts to standardise stock exchange practice all over India. As was explained before in the course of the speech on the motion for the reference of the Bill to the Joint Committee, we consider the reform and standardization of our existing stock exchange laws, on the broad lines embodied in our Bill, as an essential complementary measure to the new Companies Act, which has come into force from 1st April 1956.

The House will recollect that the structure of the Bill and the general pattern of the regulatory provisions contained in it were fully explained by us in the course of the debate on the motion for the reference of the Bill to the Joint Committee. If I may remind the hon. Members once again, the Bill does not provide for any detailed or meticulous regulation over the day to day activities of the stock exchanges. Instead it lays down a general system and apparatus of control, which seeks to arm the Central Government with large powers to be exercised generally in consultation with the governing bodies of the stock exchanges, when Government consider the use of such powers necessary either in the interest of legitimate business or in the public interest. The Joint Committee has fully endorsed this approach to the problem of stock exchange reform and approved of the basic structure of the Bill.

As regards the detailed provisions of the Bill, the Committee has, however, made some important amendments, to which I shall now refer.

The Committee has amended the definition of "spot delivery contract" by requiring that the actual delivery of the securities and the payment for them must be completed either on the date of the contract or at the most, on the next day excluding the period that was required for the despatch of the securities or the remittance of the payment. The original Bill had provided three days in-

[Shri M. C. Shah]

cluding the date for contract but the Committee considered that that period was rather long and therefore they recommended that the period should be two days, exclusive of the time taken, as I said, for the despatch of the securities or the remittance of the payment.

As regards clause 4, relating to the grant of recognition of stock exchanges, the Joint Committee thought that in the conditions, there must be a condition with regard to the number of members which was not there. The Committee thought that while regulating the stock exchanges on an all-India basis we should be very careful to see that the monopolies are not created by members of the stock exchanges now existing, and therefore, they recommended that while the applications for recognition were submitted to the Government, that condition of Government determining the membership should be included. Therefore, whenever an application comes after the Bill is passed and it becomes an Act, this condition would be applied, as the Bill would lay down a condition with regard to the membership necessary for a particular stock exchange in a particular area.

The House will also remember clause 9 in the Bill, the key provision in it, which authorises a recognised stock exchange to make bye-laws for the regulation of contracts in securities, subject to the previous approval of the Central Government. The Joint Committee has made three important additions to the matters administered under clause 9. Under clause 9(2)(c), they have provided that the stock exchanges shall publish, as soon as possible, after the settlement, the total number of each category of security carried over from one settlement period to another; the total number of each category of security, contracts in respect of which have been squared up during the course of each settlement period; the total number of each category of security actually delivered in each clearing, and the total amount paid as difference in respect of each cate-

gory of security. Secondly, the Joint Committee have suggested that the bye-laws relating to emergencies in trade should also provide for certain abnormal situations that may be created by the working of pools or syndicated operations or cornering or similar activities. Thirdly, the Joint Committee have provided for the making of bye-laws for the separation of functions of jobbers and brokers. The object of the proposed publication of the trading statistics mentioned by the Committee is to furnish an overall picture of the transaction in the stock exchanges during a settlement period, which the Committee thought might be of help not only to the investing public but also to the Central Government in regulating the activities in exchanges.

As regards the emergencies in trade, the Committee felt that it was desirable to provide specifically in the bye-laws for the manner in which the situations created by the operations of pools or corners should be handled. The Committee also considered that in the interests of the better organisation of stock exchanges, a beginning should be made in the bye-laws for separating the functions of jobbers and brokers. Although the Committee realised that having regard to the present state of the exchanges and the volume of business obtaining in them, it might not be easy to separate these functions, however, wherever possible, there should be certain bye-laws separating the functions of jobbers and brokers.

The most important amendments made in the Bill as passed by the Joint Committee are however in respect of the provisions relating to the licensing of dealers in clauses 17 and 18 of the Bill. The House will remember that the scheme of the original Bill was that for the spot delivery contracts would be exempted from licensing provisions in areas notified under clause 13, that is, in areas where the Central Government has declared by notification in the official gazette that no dealing in securities should take

place otherwise than between the members of the recognised stock exchange or through or with such members. But in non-notified areas, that is, in areas not covered by the notification under clause 13, all contracts including spot delivery contracts were to be subject to licensing. The Joint Committee felt that this arrangement was discriminatory and therefore they proposed—and it has been provided now—that ordinarily spot delivery contracts would be exempt from the provisions of this Bill irrespective of whether such contracts are entered into in areas notified under clause 13 or not. But the Central Government would have the power to extend the licensing provisions of the Bill to such contracts, both in notified and non-notified areas, should it consider it necessary to do so in the interest of the trade or in the public interest.

As regards other types of dealings in securities, that will be subject to licensing in areas notified under clause 17, that is, in the areas where there is no recognised stock exchange, but even in these areas dealings in such contracts carried on by or on behalf of any member of the recognised stock exchange would be outside the scope of the licensing provisions of the Bill. The hon. Members will notice that the net effect of these provisions is not that spot delivery contracts which will, for all practical purposes, be cash contracts, be free from any regulation unless the Central Government considers it expedient to regulate such contracts in the interests of trade or in public interest. That will be done only when it comes to the notice of the Government that while dealing with the spot delivery contracts, there are other contracts entered into by those people who deal in spot contracts. Other types of contracts would, however, be subject to licensing except in notified areas, that is, in the areas within the limit of the recognised stock exchanges where the responsibility for regulating such exchanges would necessarily be that of the governing bodies of those stock exchanges.

I think the House will agree that the changes suggested by the Joint Committee in these somewhat complicated provisions of the Bill constitute an appreciable improvement on the earlier provisions inasmuch as, while they render the licensing of the spot delivery contracts unnecessary in all *bona fide* cases—thereby facilitating the legitimate business—they also invest the Central Government with the requisite powers to control all such dealings in securities wherever the interests of the trade or the interests of the general public require the Government to do so.

P.M.

As a corollary to these amendments, the Joint Committee has inserted a new clause 19 in the Bill, which prohibits the setting up or maintenance of non-recognised stock exchanges in any State or in any area except with the permission of the Central Government. Without such a provision there was a risk of non-recognised stock exchanges springing up in non-notified areas under the guise of licensed dealers. But, now the Government have taken the powers to see that without the previous sanction of the Central Government, there should be no association of persons for organising any stock exchange for the purpose of assisting in or entering into any contracts in securities. The moment they organise a stock exchange, that area will be notified. This is subject to the conditions which have been provided in the Bill regarding the recognition of stock exchanges.

The Joint Committee has elaborated the provisions of clause 23 by some important amendments to it, the effect of which is to strengthen considerably the scheme of regulation envisaged in clauses 13 to 19 of the Bill. These amendments penalise 'kerb' trading and/or touting by persons, who are neither members of a recognised stock exchange nor licensed dealers nor their authorised agents. Similarly, the penalties contained in clause 23 have been extended to the owning or keeping of places used for

[Shri M. C. Shah]

the purpose of entering into contracts in securities in contravention of the provisions of the Act, as also to the managing, controlling or assisting in the keeping of such places. These are useful amendments which have been treated as very important for the purpose of regulating contracts in some notified areas also.

The other important amendments of the Bill relates to clause 27. The clause as originally drafted debarred the holders of shares on blank transfers from claiming from the registered shareholders, after a prescribed limit of time, the dividends, bonuses and other rights attached to them. The Joint Committee in amending clause 27 have only stated that the shareholder whose name is there on the register of the company will be entitled to receive and retain the dividend, unless the transferee lodges the documents with the company within 15 days from the date on which the dividend becomes due. At the same time, I have already suggested one amendment that we have given notice of, whereby we have just tried to keep the companies absolutely separate from these provisions in the sense that the companies will be permitted to give dividends to those shareholders whose names are on their list on the day the dividends become due, though the transferee may have lodged the transfer papers and other documents with the companies concerned within the prescribed period of 15 days from the date such dividend became due. If the original clause is kept as it is, it will mean an unnecessary capital loss to those persons who have already purchased those shares and have kept those shares with blank transfers.

Those are the important amendments that we have made and I hope that the House will take into consideration the importance of those amendments which have been accepted by the Joint Committee. I am sure the House will agree that the Bill as amended by the Joint Committee is a great improvement on the original Bill that was

introduced in the House. By accepting this Bill and passing it into an Act, we will be doing a service to the investing public. We will be regulating the transactions of contracts in securities and we will be regularising the practices in the stock exchanges also. We will be vesting the Central Government with the necessary powers in order to see that there are no malpractices and that genuine business is being protected. We have already prohibited options, what are called *tezi mandi*. We have made it illegal and penalties have been provided for it.

There are two other points on which the Joint Committee have not put down anything definite in the Bill. This is with regard to carry over facilities or *badlas* and about blank transfers. The Committee have stated in their report that blank transfers should not be allowed to continue for a period more than six months; but, they have not put any such regulatory provision in the Bill itself and it has been left to the Government to frame rules with regard to that. The Government will consult the stock exchanges and without hampering legitimate business in any way try to make these blank transfers non-existence beyond a period of six months. About this *badla* business, if you allow forward trading, it is but legitimate that *badlas* or carry-over facilities should be there. It will be very difficult to regulate that unless you have a provision that except the spot delivery contracts, no other contracts will be allowed in the stock exchanges. As I explained at the time of the consideration of the motion for referring the Bill to the Joint Committee, it was necessary to regulate these forward transactions in securities; but, under the present circumstances, we have to allow *bona fide* forward transactions to continue. We want to check excessive speculation at times verging on gambling by the bull operators and in such emergencies, we have taken powers to take action in consultation with the governing

body of the stock exchanges. Throughout we have been very careful to see that there is no interference by the Central Government with regard to the day-to-day administration of the stock exchanges. The rules and the bye-laws will be there; they will have to be approved by the Central Government and the Central Government will see that while legitimate forward business on the securities is allowed, there is no excessive speculation, which should be controlled in the interests of the investing public and in the interests of the trade. That is all I have to say. I hope that the House will agree to the Bill being passed into an Act.

**Mr. Speaker:** Motion moved:

"That the Bill to prevent undesirable transactions in securities by regulating the business of dealing therein, by prohibiting options and by providing for certain other matters connected therewith, as reported by the Joint Committee, be taken into consideration."

In all, six hours have been allotted for all the stages of this Bill. I would like to know how many hours would be required for general consideration and how many hours for clause by clause consideration. There are 31 clauses. There are only 5 amendments so far. Three are from the Government.

**Shri U. M. Trivedi:** Five hours for general consideration.

**Dr. J. N. Parekh (Zalawad):** Four hours for general consideration, 1½ hours for the clause and half an hour for third reading.

**Mr. Speaker:** All right.

**Shri G. D. Soman (Nagaur-Pali):** Shri Tulsidas and myself have sent certain amendments this morning. I hope you will kindly allow the amendments.

**Mr. Speaker:** They will also be taken.

**Shri U. M. Trivedi:** Mr. Speaker, This is a measure thrust upon us by

the Government, I cannot find out for what reason. In the beginning one feels that dealing in stocks and shares is a legitimate business and is carried on all over the country. It is true that in big cities, gamblers indulge in this activity to such an extent that they actually offend the Gambling Act in running their shows. That could not have been the reason for introducing this Bill and having provisions of the nature which are provided for in this Bill.

[**MR. DEPUTY SPEAKER** in the Chair]

If we go through this Bill, we are surprised to find that the Government has entirely missed the bus in making provisions of the nature which are embodied in this Bill. In various places the Bill says that whenever any emergency arises, Government will do this or that. Certain powers are vested in the Government. This word emergency in the stock exchange has not been in any manner described or defined. One never knows what type of emergency is contemplated by the Government. It is not stated at what stage the emergency will arise and in what manner an emergency is envisaged. The Government has taken full control of running the stock exchanges by the provisions of this Bill. Government has said in clause 4 (1) (b) that the Government will decide what will be the number of persons who will form the stock exchange. The clause says:

"that the stock exchange is willing to comply with any other conditions (including conditions as to the number of members)...."

You say that a particular privileged class of people will be created who will be the only persons who will remain as members of a stock exchange. Those who want to enter the business, intelligent people, hard-working people who will be able to stand on their own legs against the old people who may be there, may not be admitted into membership of the stock exchange.

[Shri U. M. Trivedi]

In other words, the right that has been conferred by our Constitution under article 19, to enter into any trade or business or profession is being denied by virtue of this control which is being introduced by way of this measure. I cannot understand the propriety of making such a provision in this law. After all it is a private business which any man can do. It is his investment. He will sell his investment or any person's interest and he will act as his broker. Why should a man who wants to do this business be deprived of his right to carry on this business or this profession? I am afraid that this provision is being copied out from some fascist or communistic countries where such control of the Government is contemplated, where everything that is to be done must be done by the Government and not by anybody else. We are tom-tomming, no doubt, for a socialistic pattern of society. But, a socialistic pattern, does not, in my humble opinion, mean that the pattern must be one which we want to impose from the top and say, you do this, or you don't do this business. The whole Constitution is wiped out and Government control is put on our head. I say this is a wrong provision and should not be kept in our law.

I wish to draw the attention of the House through you to clause 5 of this Bill. Under the provisions of an ordinary law, whenever you want to penalise a party in any manner, principles of natural justice demand that we must tell him the reasons why a particular action or a particular penalty is to be imposed upon him, or a particular action is contemplated. In this case, the Government very sweepingly says that the Government may serve on the governing body of the stock exchange a notice saying that the Central Government is considering withdrawal of recognition for reasons stated in the notice, and that after giving an opportunity to the governing body to be heard in the

matter, the Central Government may withdraw by notification granted to the stock exchange. My objection to this provision is that the Government should not only give the reasons, but the first notice must be to show cause why recognition should not be withdrawn. Why should the Government decide beforehand to withdraw the recognition and tell them that we are considering withdrawal of recognition? That means that Government should not prejudge the issue and should not start with the proposition that the Government has determined this way. What will happen is this. Once the Government has come to this decision, official prestige will be upheld under whatever circumstances, when our machinery is governed by bureaucratic officers. The position will be that the Government will make up its mind, that is to say this bureaucracy will make up its mind that recognition of such and such a stock exchange is to be withdrawn, then notice will be given and then only the stock exchange will be told that its recognition will be withdrawn, and then the recognition will be withdrawn, after going through these formalities of asking them to say anything they may want to say in the matter. In my opinion it should be left to an independent body or tribunal or a registrar or some such independent functionary to hold an enquiry into the reasons that are advanced, verify whether those reasons stand or not, hear the arguments against them and then come to a finding whether the recognition should be withdrawn or not. An appeal should also be provided against such a decision. Otherwise, it will create a very great hardship for those who are running the stock exchanges.

Then I come to clause 9(2)(a). It is a very curious provision which says that the laws will provide the limitations on the volume of trade done by any individual member in excep-

tional circumstances. What are these exceptional circumstances, and who is going to define them. What a vague term! We have not applied our mind to it. Why put an embargo on a man doing his business? A man may be intelligent enough to manipulate so many things. When you want to legalise and regulate gambling, there is no justification for putting this embargo, and that too in a vague language. What can be the exceptional circumstances and who determines them? When do they arise? What is the determining factor behind it? I therefore submit that this provision should not be kept in this law. This will work as a serious hardship on those against whom it is made.

Then I come to clause 11(4) which reads:

"The Central Government may at any time before the determination of the period of office of any person or persons appointed under this section call upon the recognised stock exchange to re-constitute the governing body in accordance with its rules and on such re-constitution all the property of the recognised stock exchange which has vested in or was in the possession of the person or persons appointed under sub-section (1) shall re-vest or vest, as the case may be, in the governing body so reconstituted."

This is taking too much power into the hands of the Government. Government can do away with the democratic powers enjoyed by the governing body of a stock exchange and the control of the Government will be such that it will give directions as to what particular persons it should select and what particular persons it should not select. The choice of the Government on the question of the selection of the office-bearers of the stock exchange will be a very dan-

gerous encroachment upon the liberty of a stock exchange. In my opinion, therefore, the Government should steer clear of the temptation to interfere with the private business of private individuals.

The provision in clause 12 is:

"If in the opinion of the Central Government an emergency has arisen and for the purpose of meeting the emergency the Central Government considers it expedient so to do, it may, by notification in the Official Gazette, for reasons to be set out therein, direct a recognised stock exchange to suspend such of its business for such period not exceeding seven days...."

It may not be a very harmful action that the Government may take, but the pernicious principle that is behind it is dangerous and has got to be avoided. Who determines this emergency, and what will be the nature of the emergency? I have gone through this Bill and I find that the word "emergency" has been nowhere defined in any manner. Who determines the emergency? An officer of the Government sitting at Delhi determines the emergency. The nature of the emergency must also be described. A situation should not be allowed to develop in which there may be a flood of litigation let loose upon the public and much harm done unintentionally or intentionally to the working of the stock exchange. This emergency cannot be an emergency of a national character as for that we have got ample provision under the Constitution. A big capitalist who may have a pull with the Government may be able to show to the Government that he would be ruined if they do not come to his rescue and suspend the whole business so that he may not have to pay for the contracts he has entered into. Can that be the emergency under the contemplation of the Government? What is this emergency which is contemplated? I would like to know and the House may also be apprised



[Shri U. M. Trivedi]

of the conditions that will constitute such an emergency.

The provisions in clauses 13, 14, 15 and 17 are of a restrictive nature. The provisions of clause 18 are said not to apply to spot delivery contracts, but the definition of spot delivery contracts is a very peculiar one. A and B, one living at Simla and the other at Nagpur, want to enter into a contract of spot delivery, and if they are not able to carry on the contract through the agency of a stock exchange they will not be able to carry on the contract, and the contract will be considered illegal and void because the terms of the spot delivery contract require that the payment must be made during a particular time-limit, and if the payment is not made during that particular time-limit it shall not be treated as a spot delivery contract. The definition of the spot delivery contract is like this:

“‘spot delivery contract’ means a contract which provides for the actual delivery of securities and the payment of a price therefor either on the same day as the date of the contract or on the next day, the actual period taken for the despatch of the securities or the remittance of money therefor through the post being excluded from the computation of the period aforesaid....”

This will create so many difficulties. Supposing a big contract has been put through by two persons. One of them wants to send the securities and the other wants to make payment through a remittance, and both or one of them falls ill. The money reaches, the securities do not reach. Then, by some unforeseen circumstance, one of them dies. This will make the whole contract invalid and illegal because it does not fall within the purview of the definition of spot delivery contracts, and the dishonest heirs, successors or legal representatives will get out of a contract of this nature. Why

this embargo on spot delivery contracts by defining it in such a way as to take the rights of those who innocently want to enter into such contracts and who have nothing to do with the stock exchanges? Government is trying to put an embargo upon the ordinary activities of a private investor. A private man may want to sell his securities. He cannot do so under this law except through a stock exchange. Why should he pay any brokerage to anybody? Why should he pay through his nose to any of these commission agents? Why should he go through any stock broker and make his contract? He can very easily make contracts himself. Two friends are there to make the contract, and they can very well make it. But if they do not come to make the contract and discharge the contract, as laid down in the definition of ‘spot delivery contract’ then the contract becomes an illegal contract. I cannot understand why this sort of provision should be there. Trying to put a premium on stock exchanges in one way, and then trying to control the stock exchanges in another way is the method of Government for entering into the occupation of everybody and controlling it. That means that they are trying to do away with all avenues of private enterprise.

I have offered my criticism on this Bill only in respect of those provisions which offend against the ordinary conception of a lawyer. I am not concerned with the various economic implications thereof, for I have not applied my mind to them, and I do not know much about them also.

So, I shall now confine myself to a brief observation on the provisions relating to penalties. It will have to be admitted, and it cannot be gainsaid, that this measure is a measure controlling the ordinary civil contractual life of the persons dealing in securities. Yet, the penal provisions which are being embodied in clauses 23 and 24 are exceptionable. We remember the days of the Defence of India Rules,

when the police could jump upon anyone on the slightest pretext. But here we have started the game first in respect of the forward contracts, and now we are coming forward with this measure which says that a police constable will have the power of taking cognisance of any offence under this law, which may or may not be prosecuted, which may or may not even go to court at all; the papers may not be placed before court, and yet the constable could jump upon a person, arrest him, handcuff him and take him to the police station. I do not know why such a provision is contemplated for an offence which is entirely of a civil nature, or I would say, of a quasi-criminal nature.

In fact, the offence of breach of contract has never been taken to be a criminal offence. In those glorious days of British rule, the British thought that the offence of breach of contract should be punished by a criminal court. But now, those provisions in the Indian Penal Code, which provided for this, namely sections 490 and 492 have been taken away. Yet, you are now bringing forward these provisions of criminal nature, though you are dealing entirely only with securities. The public is not interested in it at all. The discharge of a particular contract or the manner in which it is to be discharged is no concern of the public. Yet, here you are imposing upon an ordinary innocent investor a penalty, which I would say, you should refrain from imposing. I should say that it is highly grotesque to suggest that a penalty of this nature should be imposed; and it is much more so that it should be provided that the offence shall be a cognisable offence. I should like to plead with Government, through you, and request them that they should open their eyes and not allow the police to be so oppressive and to arrest people in respect of matters with which the general public at large has absolutely no concern. It is not an offence of moral turpitude; it is merely a question of a man not fulfilling his contract in a particular manner, or not

following a particular law; it may be that he is ignorant of the law relating to securities, and yet his father might have left him one or two shares, and he might be dealing in those shares with an ordinary person whom he considers to be a fit person first and whom he finds later on to be a person who is not a proper person to deal with, and thus he might have committed an offence; but he will be punished under this law. I would say that we should see clear of this position and not make this offence a cognisable offence. Breach of contract is never a cognisable offence. You have yourself provided in the law that cognisance of such an offence in a court of law will be taken only by a first class magistrate, which means that you do not want to trust a second class magistrate or a third class magistrate. You want to trust only a first class magistrate. At the same time, it is strange that you are prepared to trust, by some curious logic, a police constable to take cognisance of the offence that is reported.

I have nothing more to urge. I request that the remarks I have made may be taken into consideration by Government, and proper amendments suggested.

**Dr. J. N. Parekh:** At the outset, I wholeheartedly welcome this measure which has been long overdue. It is well known that various committees in the past the Atlay Committee, the Morrison Committee and the Gorwala Committee, went into the need for regulation of stock exchange markets, and after a good deal of deliberation on the draft Bill, this measure is now before this House.

Stock and shares markets play a very useful and vital role in the economic life of any progressive country. It is very well known that there is intimate correlation between stock prices and national economic progress, and as such the stock exchanges play the role of a very important market in the investment world, and can well be considered as the barometer of economic climate in the country.

[Dr. J. N. Parekh]

Industrial, scientific and technological advances represent the prosperity of the nation. Investment, capital formation and judicious savings happen to be the life-blood for any industrial undertaking, public or private, corporations or governments. Stock exchanges through equity and gilt-edged capital represent these activities and therefore, stock prices can well be said the heart-beats of the 'body-economic' indicating its health.

It is in the fitness of things, therefore, that our Second Five Year Plan has an industrial bias, and since stock exchanges are destined to play a vital and important role, the need to regulate them is all the more essential.

Looking to the speech of the Finance Minister at the time of reference of this Bill to the Joint Committee, it is clear that Government consider that the stock exchanges do fulfil a legitimate and useful role in their own sphere.

There has been spectacular economic activity all over the world, including India. Industrial activity and incomes reached record heights in many countries. The prices of goods, services and securities are showing an upward trend, and in many parts, near-inflationary tendencies are to be seen. In countries like England, monetary curbs and credit-squeeze had to be resorted to correct disequilibrium, and the Bank of England rate also stepped up to 5½ per cent.

This naturally transferred a substantial portion of the burden of financing India's growing foreign trade to the Indian money market. There was a heavier call on the Reserve Bank; there was a scramble for deposits by the scheduled banks and the call money rate jumped up from 3½ to 3¾ per cent. It was apparent therefore that the accelerated tempo of development expenditure was making itself felt, with inflationary pressure gaining upper hand.

The remark of the Finance Minister at the time of his budget speech regarding deficit financing and development expenditure in order that there may be development rather than stagnation is very significant.

At present, one finds the co-existence of contradictory and paradoxical economic patterns. On the one hand, there is increase in note circulation and inflation, and on the other there is a scramble for funds in the money market. On the one hand, there is increased production and on the other, one has to grapple with high prices. On the one hand, one finds great concern to check the rising spiral of inflation and on the other, a drive to export more and more which results in higher prices of the necessities of life. Such a paradoxical situation entirely baffles the common man. It is very clear that a correlation of money supply, production, export and credit facilities plays an important part in the development of inflationary tendencies. Deficit financing which was Rs. 19 crores in 1953-54 and Rs. 136 crores in 1954-55 rose to Rs. 240 crores in 1955-56. Scheduled bank advances which were Rs. 443 crores in 1953-54 had crossed the mark of Rs. 580 crores by March this year. Thus this year notes in circulation are higher by 20 per cent. and bank advances by 23 per cent. than last year. This has naturally resulted in higher prices of necessities of life, of commodities and of stock. This inflationary phenomenon needs very close and careful watching.

Viewed in the above background, part of the rise in stock exchange prices represents the growth that normally takes place in a market functioning under an expanding system of planned economy. The emphasis on industrial development in the Second Plan will yield results only if the rate of industrial progress, growth of national income and capacity for capital formation are co-ordinated. It is here that a well organised stock ex-

change plays a very useful role for capital formation and diversion of public saving for fruitful investment purposes. It provides, keeping public interest in view, a forum and a service both for buyer and seller, because there are those who want to buy shares to invest and there are those who want to sell for cash. Then there are those who buy in the hope of selling at a profit and there are those who sell to buy at a profit. Thus, the prime function of a stock exchange is to impart to the capital, that is, shares and stocks, easy negotiability, marketability and convertibility. If in this one finds an element of speculation, it is necessary to a particular level.

It may very well be argued that 'spot' market may be allowed to function where shares and cash could be exchanged across the counter. But such narrowing down of the function of the market would deprive it of the characteristic of continuity, liquidity and smoothness, so very essential from an investor's point of view. One has to be very cautious here. A buyer may not find a seller or *vice versa*. Thus a well-regulated stock exchange affords the best forum to the investing public.

Then I come to price fluctuations. Stock market prices are reported fluctuating and this is given a bad name. But it must be understood that different phenomena and factors cluster into a pattern resulting in orderly and rhythmic movements depending on various factors. The formative and diverting forces in trade, industry and economy influence the trend and determine the course and current of stock exchange prices. Thus there are long, medium—and short-term price movements. The long-term price movement depends on the trend of national economic progress reflecting monetary and technical factors, *viz.* rate of savings, level of industrialisation, changes in the rate of interest etc. The medium-term price movement depends on the trade cycle and its corollaries, that is, the board policy of State regarding nationalisation, State control, imposition of taxes,

over-production or under-production, international relations and factors like trade transport and consumption indices then there are diverting forces also which affect medium-term price movements, *viz.* changes in the rate of interest, changes in the value of money in terms of general prices etc.

Then there is the short-term price movement. This phenomenon is the result of the market's own resources depending on the structure of the market and its technical position. It may be the result of a snap bargain or distress sales, of 'shops' unloading or 'pools' accounting, of a 'bear squeeze' or a 'bull pull' all these resulting in a crash or a boom with undesirable consequence.

But in a regulated market, such 'bear raids' or 'bull corners' are unusual features, and mostly the market fluctuates within the legitimate ups and downs, within the prescribed limits of normal range of price movements. Besides these cyclical or seasonal forces, prices react to earning capacity, income rate of the stock, and asset value. Factors like capitalisation of reserve, changes of management, labour trouble, etc., also play a part in price movements.

Stocks and shares are divided into the following categories. The first is gilt-edged securities. They are the Central and State Government loans as also corporation loans. The next category, shares and debentures, are divided into ordinary, preference and deferred shares. Shares of the various types of companies are listed on the various stock exchanges. I would say that the influence of inflation and the rate of interest affect and determine share prices. During the war, Indian share prices behaved in exactly the same manner and reflected the same influences as operated on share prices in other parts of the world.

Thus the sustained production, gainful employment levels, buoyant corporation and company results, rising prices, cheap money policy and favourable cyclical phase produced an

[Dr. J. N. Parekh]

optimistic mood resulting in a boom-like condition. The boom is not the result of 'forward' trading peculiar to the Bombay market.

**Mr. Deputy-Speaker:** The hon. Member is discussing the subject very extensively.

**Dr. J. N. Parekh:** I will come to the Bill now.

I would say that in India the present climate is very good for a healthy growth of stock exchanges. It is very clear that the success of the State Government loans, capital formation, Central loans, municipal loans as well as equity capital issued by various companies represents the same.

At this stage, I would like to mention that the Government while granting permission to existing companies for floatation of new capital, insist that a premium should be charged on the par value of the shares. This phenomenon is unexplained and I wish it is carefully scrutinised.

Coming to blank transfers—I have detailed it in my Minute of Dissent—it has been argued by various sides that blank transfers encourage evasion of taxation, help in taking control of some of the companies, bring loss of stamp revenue to the Government and encourage speculation. As is very clear, the idea of tax evasion is probably the result of confusion because it is said that persons who want to avoid tax take advantage of benami transactions and blank transfers. If it was so then promissory notes and government securities are also blank transfers. This blank transfer system has stood the test of time in U.S.A. It imparts negotiability, liquidity etc. It seems that there has been some confusion in this.

The idea of taking control of the companies by resorting to these blank transfers is also erroneous in my view because the person who wants to have the voting strength would

naturally like to transfer and get the shares registered in his name rather than keep it blank so that he may be able to vote at the time. Moreover the latest Company Act of 1956 has given wide powers and that fear is absolutely unfounded.

The fear of avoidance of stamp duty is also equally unwarranted because the idea of evasion of stamp duty does not come under this Bill; it should be taken up somewhere else.

The idea that it encourages speculation also, in my view, is not correct because monetary supply can be available easily but the stocks are limited in the market. When in the market there is a floating stock in acts as a buffer or cushion and hence if this system of blank transfer is restricted it will become difficult. In India, we have not yet regulated the transfer system. The companies are situated far and wide; companies do not transfer their shares so easily. Since we have made these arrangements, unless somebody comes to know that a big floating stock is not available, it will result in more wide fluctuations in the market than otherwise.

Moreover in the clearing house this has to be done. In the clearing house a stock which has run for about 4 to 5 months will naturally not be accepted by anybody and a person would ask his broker to square up his business and there will be such wide price movement. The banks in India are also advancing on blank transfer and that pattern is likely to be disturbed. All this will have to be looked into and the stock exchanges themselves will naturally assess the implications of this thing before arriving at any conclusion. I am also glad that the Bill gives only regulatory powers, and there is no statutory prohibition or the like.

I come to clause 14(1). It is said that the breach of a specific by-law should meet with some punishment. Naturally, we would like to see that

guilty persons are punished. There is no excuse. Here it must be remembered that just as there is a broker and his client at one end—at the other end also there is a broker and innocent bazar parties. Now a situation may arise or may be manoeuvred that the parties at the other end may not know that there has been a breach of the by-law. A broker and his client may join hands and act in collusion to the detriment of the exchange and community. Therefore, I have suggested in my amendment that in 14(1) (i) after the words 'as respect the rights' the words 'as to his brokerage, commission or rewards' should be added. It will improve the matter a little.

About principal contract also three days' time is given. In my view the client should be asked to give his choice on the same day. It gives the right to change his ideas if there are price fluctuations.

In clause 20 we have provided for option trading. I personally feel that option trading is recognised in modern stock exchanges in the U.S.A. and in London also. It should be regulated rather than prohibited because the very existence of a forward market contemplates option trading in one form or another. Regulation is better than prohibition.

In 18 we have provided for licencing in a notified area where a stock exchange exists. This is quite understandable.

I agree with my hon. friend Shri Trivedi in feeling that the idea of punishment my imprisonment and the creation of a new class of criminals and cognizable offences in the commercial world is not desirable. Sir, in India there are very few organised stock exchanges like Bombay, Madras, Calcutta, Delhi and the like. Therefore, one has just to see that the pattern of working is really regulated in such a way that we have a standardised and well organised market. No doubt, Bombay Stock Exchange is a very well organised market and it

has stood the test of time and weathered many storms. It has a powerful unit and its President, Mr. Shroff is an expert. The idea is that if we have such full-time and experienced Presidents, it will go a long way.

**Shri G. D. Somani:** Mr. Deputy-Speaker, I would like to make only a few observations on two or three important features of the Bill which is now before the House for final decision. This, I think, is a necessary piece of legislation. It was rather long overdue. We passed a comprehensive Companies Bill sometime ago which has now come into operation from April last and while the Companies Act regulates the functions of the joint stock companies in the country, the Bill or stock exchanges regulate the dealing in various scrips. This Bill is, therefore, rather supplementary to the Companies Act which is now in operation.

As a matter of fact, this question of stock exchange reform was a matter of enquiry and examination by various committees and the present Bill is largely based on the recommendations of the Gorwala Committee. There is no doubt that a well-regulated stock exchange really plays a very useful role in the economy of the country and as such everything has to be done to ensure that the stock exchanges in the country are run really on healthy and sound lines.

Of course, in every good system there are also certain bad features. Similarly, although the stock exchanges have really been playing a very useful role, occasions have arisen where due to over-trading or manipulation or by over-speculation much harm has been done to the economy of the country from time to time. Therefore, there was every necessity for some sort of legislation to control and regulate the functioning of the various stock exchanges. At present we have only one State Act in Bombay which regulates the function—

[Shri G. D. Somani]

ing of the Bombay Stock Exchange. It does not mean that the well-organised stock exchanges like the Madras Stock Exchange or the Calcutta Stock Exchange are not functioning well or are not functioning under certain proper regulations.

3 P.M.

Nevertheless the need for such an all-India legislation is obvious, and, therefore, I am fully in principle in favour of the legislation being placed on the statute-book.

The stock exchanges really do provide a means for promoting investment in productive channels, and at a time when we are on the threshold of an ambitious plan of industrialisation in the Second Five Year Plan, it is but natural to expect that the number of public joint stock companies will increase considerably and there will be a lot of increased industrial activity in the country. Therefore, there is all the more need for a well-regulated stock exchange inasmuch as the activities of the stock-exchange will expand considerably during the period of the Second Five Year Plan.

Having therefore accepted the principle of the all-India legislation, I subscribe to the view that has also been endorsed by the Gorwala Committee that as far as possible, the functioning of the stock exchanges should be autonomous and that Government should not interfere in the day to day working and administration of the stock exchanges. As a matter of fact, they should interfere as little as necessary. In this connection I may just read out a few lines of the recommendations of the Gorwala Committee—

"Within its own sphere, the exchange should have a large measure of autonomy, and Government's role should be limited to keeping in touch with happenings

on the exchange and ensuring that it enforces its bye-laws properly."

Thus the basic idea before us is that the Government should take all necessary measures to ensure that the stock exchanges have got proper and suitable bye-laws under which they function, and at the time of granting the recognition, they should of course ensure that the administrative set-up and the bye-laws, etc., of the exchange are in conformity with the public interests. But having ensured that, it should be the policy of the Government to let the exchanges function independently and without any undue interference from the Government Department.

Here I would like to draw the attention of the hon. Minister to one or two points. The first is about the provision to have three Government nominees on the board of the stock exchange. In my personal view it would have been much better to let the boards of the stock exchanges be purely elected out of their own members. Since the Government will have to interfere only in cases of emergency and in cases of gross mismanagement, it would have been much more desirable not to allow the Government nominees concerned to be a party in the day to day functioning of the exchanges, and as such, it would have been desirable not to have any such provision in the Bill. Even if it is required or found essential that some sort of Government liaison should be there, I think it would be quite sufficient for the purpose to have one Government nominee on the board so as to ensure that he keeps himself in day to day touch with the developments that are taking place inasmuch as there is no question affecting the voting because the number of directors in any case will be much larger even if the number of Government directors is kept at three. Therefore, I think the purpose of the Government, namely, to keep

a close watch on the functioning of the exchanges, will be properly served if only one Government nominee is kept on the boards of these exchanges.

Besides this, I would like to draw the attention of the Government to some more serious features of the Bill, that is, the powers that the Government are taking to supersede the governing bodies of the stock exchanges. For one thing I do not think there is any need for providing for supersession because after all, if a certain governing body is not functioning properly, the better course would have been for the Government to take the power to order fresh elections. After all, the members of the exchange concerned should be given an opportunity to replace their existing board by some new members who would take better responsibility or who would take better steps to ensure the proper functioning of the exchange. If by supersession it is meant that certain outside nominees are to be placed in-charge of the stock exchange, then I am afraid the whole scheme will not work, and indeed it will be an undue interference. I would also suggest that the Government should be content to take the power to dissolve any governing body at any given period and to order fresh elections. The issue before the members will be quite obvious inasmuch as the reasons for dissolving prematurely any existing directorate will be given by the Government, and, therefore, it will be for the members to take the necessary measures to have a competent governing body which will ensure the functioning of the exchange in conformity with the Government policy and public interests. After all, the ultimate power to withdraw recognition of any stock exchange is there, and if after giving such opportunity for fresh elections it is persistently found that the members are not exercising their responsibility in a proper manner, and if even after fresh elections the exchange does not function properly, then, of course, its recog-

nition can be withdrawn. But I do not see any point in taking the power to supersede it.

I find that there are some deliberate changes in the wording about the procedure that will be followed by Government at the time of supersession. Previously it was intended that a 'show cause' notice will be given to the stock exchange to explain why its governing body should not be superseded. But as it is, it has only been provided that it will have a right of being heard. That might mean a mere formality, and indeed it may not be as effective as the words were in the original Bill. If the idea is to give a full and fair opportunity to the stock exchange before any such drastic action is taken, I do not see the slightest justification for changing the words as were contained in the original Bill, because if it is to be given a fair opportunity, then it is only just and proper that a 'show cause' notice should first be issued to the governing body. If after their explanation is fully examined it is found that it is not satisfactory, then the necessary consequences should follow. I would suggest, therefore, the desirability of substituting these words and leaving them in the original form in which they were in the Bill and not to have a phraseology which might be interpreted as merely a formality and as not giving a fair opportunity to the body concerned to give its explanation before any such drastic step is taken.

Much has, of course, been said from time to time about blank transfers. While no statutory power has been taken, the majority of the members have expressed the opinion that a maximum period of six months should be laid down in the Bill in respect of blank transfers. In this matter there is, of course, a genuine difference of opinion and even in the Report of the Gorwala Committee, the members have expressed different views. So far as one can say from practical experience, the previous speaker has pointed out as to why under the present circumstances, under the various



[Shri G. D. Somani]

powers which the Government have taken under the Companies Act, it is now no longer necessary to have these blank transfers disallowed. These transfers provide facilities for negotiability and increase the floating stock in the market and thereby facilitate the day-to-day trade of those who are genuinely interested in trade. The whole position may be watched as to how the new Companies Act eliminates the malpractices or mischiefs which might have resulted from these blank transfers. That Act is able to deal effectively with this, then it may be left alone.

I would like to draw the attention of the hon. Minister to the assurance given by the Finance Minister while introducing this Bill. He assured us that a standing advisory council would be appointed to advise the administration dealing with the stock exchanges. It is essential that such a council consisting of the representatives of the various stock exchanges should be appointed as soon as this Act comes into force. It must not be forgotten that this is a specialised subject and any action should be taken after mature consideration and consultation with those who have got experience in the matter. We have in the President of the Bombay Stock Exchange a person who has no interest in the day-to-day dealing and as such there are no fears that the advice or association of such men will in any way prove harmful to the national interest. On the other hand, there are various complexities and complications arising out of the functioning of this Act and Government will be well advised to implement the assurance given by the Finance Minister forthwith. The words used by him, I think, were: "This appointment will be made in due course." The hon. Minister should give a definite assurance now that the Government has every intention to appoint such a standing advisory council as soon as this Act is placed on the States book

Shri Sadhan Gupta (Calcutta South-East): Sir, the presence in our country

of a significant private sector makes it necessary that stock exchanges should exist. When we have joint stock companies floating their shares or when we have securities, it is necessary that there should be a stock exchange or there should be stock exchanges in different places to deal in those securities or shares.

The question arises: what kinds of dealings should be permitted? This Bill seeks to regulate dealings in stock exchanges. It does not seek to prohibit stock exchanges altogether, as it cannot do indeed. But, we must remember we are not for an unregulated private sector in our country. We are pledged to a very drastically regulated private sector which follows from our objective of the socialist pattern. Whether we look at it from the point of view of the socialist pattern or of the common people in whatever economy they live, there can be no doubt that dealings in stock exchanges need to be very drastically regulated.

In every country, stock exchanges have not done what they are supposed to do. They have indulged in activities which have seriously jeopardised the economy of the country which have seriously undermined the position of the common people and as such, even most of the capitalist countries who are avowedly opposed to the socialist pattern, have found it necessary to pass certain laws regulating stock exchanges.

In our country, when we are pledged to a Welfare State, leaving aside for the moment the question of socialism which is a far cry, even from the point of view of a Welfare State, the functions of the stock exchanges should be to assist the genuine investors in investing their money either in shares or in securities. The investor should be able to go to a stock exchange and find the share or securities which will give a good return for his investment. That should be the only legitimate function of a stock exchange. Any other function is fraught with great perils for the

common people. Therefore, I do not understand what the hon. Finance Minister means when he speaks of legitimate forward trading. I do not see how shares or securities can be the subject of legitimate forward trading. All you have to provide for, if really you want to run the stock exchanges in the interest of the investors, is that the investors should have advice as to the kind of securities in which they should invest. This is the legitimate function of the stock exchange. But, have the stock exchanges in our country confined themselves to this function? What is the necessity of regulating the stock exchanges if they have confined themselves to this function?

I must confess that I am not an expert in stock exchange matters. I look at it from the point of view of an ordinary member of the public. But, even from that standpoint, there are things sufficiently alarming which convince me of the necessity of drastic regulation of stock exchanges. The stock exchanges, I find, have not confined themselves to the interest of genuine investors; they have been the medium through which vast speculative transactions have taken place. Shares and securities have been speculated in and their prices have been so influenced by speculation as not to have any relation to their real intrinsic worth. For instance, I have heard that a certain gentleman bought up the controlling shares in a European company. First of all, he bought up about 9/16ths of the shares in order to get the controlling interest. The fact that so many of the shares were being bought up sent the price soaring and the price became double. At double the price or a little more than that, he released half of the shares and got back the money he paid for those shares and a little more. It shows how speculation works. It has no relation to the intrinsic value. The shares themselves become commodities without any relation to the strength or otherwise of the companies to which they belong. In order to influence the price, all kinds of stimulus and all kinds of dampers are used. A rumour

is set afloat about the outbreak of a war when it is peace time or the outbreak of peace, if I may use that word, when it is war time; or about fresh taxes to be imposed just prior to the budget, or of taxes being remitted just prior to the budget. In this way the prices of shares are either pushed up or pulled down and in that way interested persons reap their harvest of profit. It is interesting to note that the Reserve Bank Report for October, 1955 says that the bearish tendency in Bombay Stock Exchange continued up to September, 1955 as a result of the sitting of the All India Congress Committee held previously. You will agree, Sir, that there is no relation between the All India Congress Committee and the intrinsic worth of any share or security. Therefore, this shows the danger in which unrestricted speculative activities in the stock exchange threatens to land us in and it certainly makes a strong case for regulation.

This speculation has very disastrous results in the lives of the common people. You are doubtless aware of the number of banks that have come to grief due to speculation with their funds. Of course, when banks come to grief it is not a calamity for everyone and it is the usual picture that when a bank comes to grief the directors become prosperous and the depositors become ruined. The same thing happens in the case of insurance companies and other companies which control the funds of people who are not the proprietors of the company. Therefore, I say again that very drastic regulation of stock exchange activities is necessary.

The question then is, is the regulation contemplated in the Bill sufficient? We are in this difficulty that the Bill does not reveal in what manner it seeks to regulate stock exchange transactions. Of course, we have certain clauses in the Bill which says that governing bodies may be superseded and certain controlling powers may be exercised on the stock exchanges; but, as to what kind of transactions are to be permitted, what kind of

[Shri Sadhan Gupta]

transactions are to be prohibited and subject to what regulatory rules the permitted transactions are to be carried out, we are told nothing about. The only thing that the Bill does, which we all welcome, is to illegalise the options in securities.

Now, although the Bill does not reveal anything, we have certain apprehensions, partly from the provisions of the Bill itself and partly from certain observations of the Minister. Firstly, we find in the Act that power is given to regulate or prohibit blank transfers. In the case of negotiable securities blank transfers might be necessary to a certain extent, but why leave the power to blank transfers unaffected in every case? For instance, in company shares I do not know why blank transfers should be continued. Why should not blank transfers be prohibited in respect of company shares?

Then, the Finance Minister, as I have already stated, made a reference to legitimate forward trading in shares and securities, which we cannot understand. Shares and securities are only things in which people should be able to invest and not things which people should buy and sell freely without a motive for investment. Therefore, these kinds of things raise great apprehensions about what kind of regulation there will be.

The other thing which raises apprehension is the very lenient penalties imposed in respect of contraventions of provisions of the Bill. The contraventions of the provisions of the Bill may lead to very serious economic results. Even then the penalty of imprisonment is only one year and no more. There is, of course, a provision for fine, but people who usually indulge in stock exchange speculation are not very much bothered about paying fines. What they fear is imprisonment and the imprisonment here is precious little. We had amended the Criminal Procedure Code and now offences which are subject to imprisonment up to one year are considered

as petty offences and transferred to the category of summons cases. Under these circumstances, we are very apprehensive that the Government should regard these offences as petty offences and prescribe punishments which are prescribed for petty offences under the ordinary law. I have no fear of Government interference in these matters as Shri Trivedi has expressed, because, if anything, the Government is apt to be too liberal to the class of people who will be affected by this Bill. In Calcutta it happened that some illegal stock exchanges were being run and in their avarice they had gone so far that they had set up a telephone system of their own with many telephones and a clandestine exchange. There were raids and a case was started, but nothing is heard of it now; apparently that has been hushed up. So, this shows in what light the Government authorities regard the infractions of these laws. It is these things that make us very diffident about the success of this Bill in the limited object which it has set for itself.

However, we would have preferred a Bill with a much wider scope. We would have preferred a Bill which would have really helped in creating a healthy stock exchange to help genuine investors. This Bill, as far as it goes, will not succeed in doing it. It is very necessary that forward trading in shares and blank transfers of shares should be illegalised if a healthy stock exchange is to be created and stock exchanges are to be run for investments only. But this Bill is not going to do it. Yet, we do support the Bill. It is better than the present chaos in which stock exchange transactions now are and if Parliament exercises vigilance, if the representatives of the people bring sufficient pressure to bear on the Government then only, within the four corners of this Bill, something useful may be done.

Shri Bhawanji (Kutch West): Sir, I rise to support the Securities Contracts (Regulation) Bill, 1954 as it has emerged from the Joint Committee.

The regulation of securities and stock exchange in our country was engaging the attention of the Government for the last 30 or 40 years. It was only in the State of Bombay that the stock exchange was regulated by an Act, but in the rest of the country so far no stock exchange is regulated by the Government. Therefore I welcome this all-India legislation for the regulation of the stock exchanges in this country. This regulation presupposes a unitary control either in that community or sector, though there is no specific provision in the Bill under discussion. But I suppose that is the intention of the Government, namely, to have one recognised association in an area or a State. If that is so, I believe that the Government would take into consideration, while giving recognition to a stock exchange, the existence of more than one association in one area. In many States today, we see that more than one association of stock exchange is functioning healthily and satisfactorily. Just as the Forward Markets Commission has done while giving recognition to the commodities market, I believe the Government while giving recognition to a stock exchange in any State, will take into consideration the existence of more than one association and would try to bring them together and if possible amalgamate them and compel the association, to which they want to give recognition, to make adjustments with the other associations. Some clarification on that point from the Minister in charge of this Bill will remove the apprehensions that are prevailing in some stock exchanges in our country.

I was very glad to find in clause 4 that while giving recognition, the Government will also take powers to impose conditions and vary the membership of the association. Most of the stock exchanges in our country are today a closed house to so many people. At the time of the formation of the association, the number of membership is fixed, and if any new member wants to enter, he has to pay a price. In Bombay, during the boom,

the price for a membership of a stock exchange went as high as Rs. 60,000. Even today, if I am not making a mistake, the price must be between Rs. 15,000 and Rs. 20,000. So, I am very glad that under clause 4(1) (b) the Government are taking powers, while giving recognition to the association, to see that the stock exchange is willing to comply with any conditions including the conditions as to the number of members. This is a very healthy provision and this will give scope to many upper middle-class people, respectable people, who have not got so much of means but have sufficient means to carry on their transactions honestly and straightforwardly.

Another provision is this. The Government have given powers, under clause 9, to the stock exchanges for making bye-laws and regulating the affairs of the recognised stock exchanges. I was surprised that my friend Shri G. D. Somani objected to Government nominating their representatives on the governing body of the stock exchanges. On the one hand, Government are giving monopoly to trade in the securities market to one association. On the other hand, they are giving tremendous powers to that association to conduct the business and also enforce the bye-laws, penalties, etc. It is but fair that Government should have representation on the governing body of that association so that they could know what is happening in that association from day-to-day.

Recently, we have seen that because the Government nominees were on the Board of the East India Cotton Association, the Government knew what was transpiring in the cotton trade, and the Forward Markets Commission advised the Government and the Government came down with full force and brought the Association to its senses. That is why it is necessary that the Government should have a nominee on the board. Later on, Shri Somani conceded that there might be one nominee. If he does not object to one nominee, he could not mind for even

[Shri Bhawanji]

three nominees. In the same way, Shri Somani pointed out some minor words which have been since changed by the Joint Committee, and I do not think that such trifling objections should be raised, when the fundamental point is accepted; that is, when Government recognises an association and gives a monopoly to trade in that particular sector, it is the duty of the Government, on behalf of the public to see that the affairs of that association are conducted straightforwardly. No honest or straightforward association should be afraid of this power. Shri Somani also opposed the provision where Government have taken powers for supersession of the governing body and he objected to that provision. This very power of supersession will check the members of the governing body in doing something which is not in the national interests. In these circumstances, I think that the powers which the Government are having under this Bill are proper powers to keep the association in its proper form and tone.

Similarly, we find that the powers of control and regulation, as we see in this Bill, are more or less on the lines of the Forward Contracts (Regulation) Act which this House passed in 1952. We have seen that so far, there has been no genuine complaint from the public that these powers were misused or excessively used by the Government. So, I believe that the House would not mind giving these powers to the Government.

I shall now refer to one more point and that is about the blank transfers. A lot of controversy is going on about this matter. One is not in a position today to say whether one should stop altogether the system of blank transfers or not. These transfers are there and they are used as a negotiable document for a number of years. To put a stop to this practice overnight will not be in the interests of the industry and commerce. That is why I am glad that the Government have

adopted a middle course in this matter. Under clause 9(2)(d), Government are giving powers to the Association to provide for the regulation or prohibition of blank transfers. I hope that this regulation will not be left entirely to the members of the governing body, but that the Government members who will be on the governing body will see that this sub-clause is properly used. After experience, some *via media* should be found out by which we could check if not stop altogether this practice of blank transfer.

There is one more thing which I wanted to refer to and with that, I shall resume my seat. Options under this Bill have been made a penal offence. I was agitating for the prohibition of options for the last 30 years. Formerly, in Bombay, under the Cotton Contracts Act, options were void. Even then I was agitating for making it penal, because experience has shown that making options void did not serve the purpose. Later on, in the Cotton Contracts Act, they were made penal, and again, in the Forward Contracts (Regulation) Act also options have been made penal. But what is the experience? Even today, in spite of making them penal, we see that option business is so rampant and even the prices, though they are penal offences, are being quoted in the newspapers. If the Government, in spite of its machinery, are not in a position to stop this option, I think the time has come when they should examine the question whether options can be regulated. There are suggestions from different stock exchanges that if options are not stopped then it is better that they should be regulated. What happens now? Unscrupulous members of associations indulge in options and get away with it, while those people who have got some stake or reputation are afraid of the penal clause, because it is an un-social act. They are at a disadvantage. So, I think Government should seriously consider this aspect of the question and I wish that the Minister

in charge of this Bill, while replying to this debate, says something in this respect and tell us what the intentions of the Government are. Are they serious about stopping this thing? If they are incapable of doing so, at least they should be prepared to regulate this option.

With these few observations, I support the Bill as it has emerged from the Joint Committee.

**Shri M. C. Shah:** I am grateful to the hon. Members for having given general support to this important Bill. They have made certain constructive suggestions. But, one Member was rather vehement in making certain observations on some of the provisions of the Bill. I do not find him there in his seat now, but from the speech he delivered, it appeared to me that he was not in favour of having any regulation whatsoever. He wanted to have an uncontrolled and unregulated business in the transactions on contracts in securities.

This piece of legislation is rather overdue; it ought to have been passed earlier. Many committees have submitted their reports after considering this question carefully. These reports were examined and there was a great necessity to have a legislation on the statute-book. But, as long as the Constitution was not passed, Parliament did not have the power to legislate on an all-India basis. After the Parliament got powers under the Constitution to legislate on an all-India basis on such an important subject, we have taken action as early as possible. We had introduced this Bill very early in 1954, but unfortunately because of the pressure of work in both Houses of Parliament, this Bill did not find a place on the agenda till the end of the year 1955, when it was referred to a Joint Committee. The Joint Committee also took great pains to present the report early to the Parliament in the hope that it could be taken up in the Budget Session this year. But, as hon. Members are aware, there was a great pressure of very

urgent work in the Budget Session and this Bill did not find a place on the agenda. Now I am glad and I am rather grateful to the Minister of Parliamentary Affairs for putting this Bill in the agenda of the first day of this session.

One hon. Member has asked, "Why are these regulations necessary?" While speaking on this Bill when the motion for reference to a Joint Committee was being considered, I made it very clear that there was no intention on the part of the Government to interfere with the day-to-day administration of the stock exchanges. But it was absolutely necessary that there should be an all-India legislation to regulate and control the activities of the stock exchanges all over the country. As was pointed out by my friend Shri Somani, the only Act that was in existence on this subject was in the State of Bombay. With the passing of the Companies Bill, this legislation has become all the more important. By passing the Companies Act, we have controlled them in a tighter way, if I may say so, and now it is absolutely necessary to have a well-regulated stock market. Hon. Members want that there should be healthy and strong investment markets to give opportunities to the intending investor to invest his savings by purchasing shares in a well-regulated stock market. If there is a well-regulated stock market on which investors can safely rely, then naturally we will be encouraging savings for investments in the industrialisation of the country. Therefore, it is absolutely necessary that we must have a regulated stock market.

As regards spot delivery contracts, there should be some limit of time within which the contracts must be completed. "Spot delivery contracts" means contract entered into on a cash basis. That means a contract which provides for the purchase of shares by the actual delivery of securities and the payment of a price therefor on the same day as the date of the contract. But in order to meet some

[Shri M. C. Shah]

unavoidable difficulties, we just gave some more time and said that spot delivery contracts should be completed within two days including the date of contract. But suppose a person resident in upcountry or in the South enters into a spot delivery contract in Bombay. Then, some time is required to send the securities and therefore, we have said that in the case of persons residing outside the place where a contract is entered into, the period taken for the despatch of the securities or the money may be excluded. We have defined spot delivery contracts in a way so that there can be no malpractice. It cannot be that instead of a spot delivery contract it is made into a forward delivery contract, in which delivery can be made within 15 days or within a month. Therefore, we have distinguished spot delivery contracts from forward delivery contracts. Therefore, these spot delivery contracts have been defined. Though we had originally intended three days for completion of delivery, the Joint Committee thought it advisable that the spot delivery contracts should not be converted into forward delivery contracts and only the time that was absolutely necessary for the completion of the transaction should be allowed. At the same time, it was pointed out that there should not be any hardship to those people who may be far away from the places where these transactions take place. I feel that my hon. friend Shri U. M. Trivedi has not realised completely the difference between spot delivery contracts and forward delivery contracts and therefore he has offered these remarks. He said that he had no particular knowledge about the working of stock exchanges. That is a very complicated matter. Those who have studied the working of stock exchanges can easily understand the difference between spot delivery contracts and forward delivery contracts.

Then, he wanted to ask why there are these penalties. If he had looked into the Forward Markets Act, he will

find that the same provisions are there. We have taken those sections as may be suitable to this Bill. There also the offence is made cognisable in serious matters of deliberate violation of certain provisions. For example, options, about which Shri Bhawanji spoke. If there is some transaction in option, we have made it illegal and therefore punishable. In those cases, the offence is made cognisable. Also we must understand that in such matters, the police cannot immediately arrest without a warrant, without having investigated into the matter, without sufficient evidence in their possession that the person has committed a violation of certain provisions of the Act which are punishable under one or the other of the provisions in the Bill. So far as minor matters are concerned, if there are any offences in respect of transactions between principal and principal or between a principal and agent, they are not made cognisable. We wanted that the prosecutions should be with the approval of the Government of India. The Joint Committee, enthusiastically and rightly, said that it should not be so. They said, if you want to enforce this Act rigorously, if you want to bring about a healthy development of the stock exchanges, serious breaches must be taken up very seriously, must be made cognisable and punishable with imprisonment. If you look at the working of the Forwards Markets Act which was brought into force somewhere about 24th August, 1953, these provisions have been in force for the last 3 years and we have not received any complaint so far, about the misuse of the powers given under that Act. Therefore, the arguments advanced against taking these powers do not stand.

My hon. friend Shri G. D. Somani raised certain points. He also is not here. However, I shall just try to meet some of his points. He has admitted that this is a necessary piece of legislation. He has also admitted that it was overdue. He has supported the Bill in general terms. Only he raised

two or three points. He said that the functioning of stock exchanges should be autonomous. We have already said that that is our intention and that the day-to-day administration of the stock exchanges should not be interfered with. We do not propose to use these powers in order to interfere with the day-to-day administration. Rather we want to see a healthy development of all the stock exchanges on a uniform basis. We have taken these powers; we do not propose to use these powers to put them in difficulties, or create difficulties in the way of the growth of stock exchanges. But, we take these controlling and regulating powers to be used in cases of emergency. My hon. friend Shri U. M. Trivedi said that the word emergency has not been defined. I do not understand how that could be explained. Everybody knowing the working of stock exchanges can immediately understand what is an emergency. Suddenly there may be bear raids. Some interested parties may combine and bring the prices down. That would be a disturbance to the economy of the country. If the prices are depressed unduly very low, we will have to come in the way. There may be cornering of sharers. Certain rich people may form themselves into syndicates and take the prices high, creating a situation wherein the well-being of the investing public is in jeopardy. We will have to come in. That is an emergency. Commonsense will immediately find out what is an emergency and what is not. It is not necessary to define emergency as my hon. friend Shri U. M. Trivedi wants.

My hon. friend Shri G. D. Somani objected to three Government nominees. If he looks at that clause, he will find that we have taken powers to nominate not exceeding three. In the original Bill it was not so. The Joint Committee rather curtailed the number by saying not more than three. It is not that we will always nominate three directors. If necessary, we may nominate one. He has no objection to that. If necessary, we

340 L.S.D.—5.

may nominate two or at the most three. There will be 12 or 15 directors. These three directors certainly are not going to interfere. They will only watch the working of the stock exchanges and report to the Government how the work is going on. The only interest that the Government has in regulating and controlling is public interest, the interest of investing public, the interest to see that they play their role usefully in the national economy of the country, in the industrialisation of the country, in the formation of companies where capital has to be obtained by providing a useful channel of purchasing and selling shares, so that they may use their savings in investment. Therefore, we have said, not exceeding three. I am sure, as was pointed out by my hon. friend Shri Bhawanji, that is absolutely necessary. In the past wherever there have been Government nominees, they have played a very important role in the working of these exchanges.

4 P.M.

Shri Feroze Gandhi (Pratapgarh Distt.—West cum Rae Bareli Distt.—East): There is no quorum.

Mr. Deputy-Speaker: The bell is being rung. Now there is quorum. The hon. Minister may continue.

Shri M. C. Shah: I was just explaining to the hon. House that we have taken powers to nominate directors not exceeding three in number. So, really speaking, we have not taken very wide powers, and from experience it is found necessary to have such nominated members on the board of directors so that Government may be in constant touch with the working of the stock exchanges through their nominees.

He has also objected to the power of superseding governing bodies. He says why should we supersede them, you may just order fresh elections. If he goes through that clause, he will find that the clause is a permissive one. It is not that automatically they will be superseded. The



[Shri M. C. Shah]

Government will give them a hearing, and if the Government is satisfied that they can reform in their working, then Government will have no pleasure in suppressing a governing body. Originally it was provided that a show cause notice should be given, but here it says they should be heard. I do not think there is much to be said here or there.

They are to be given a hearing and if they show they can still work well and on ordered lines, and if there are any acts of omission or commission they assure Government that they will improve upon their working, then certainly the Government will allow them to work on certain terms and conditions.

He also raised a question about the standing advisory council, and he quoted the Finance Minister saying that it was his intention to attach a standing advisory council nominated from several interests like trade industry and the stock exchanges, to the company law administration. Certainly we want to see that the administration of this Act is helpful. It will be administered with a human approach and with a view to help the stock exchange authorities to develop themselves on healthy lines and play the useful role that they are expected to. Therefore, we stand by the assurance given by the Finance Minister even today, and nothing further I think will be expected from me by the hon. Member.

Shri Sadhan Gupta felt that this Bill, when it is passed into an Act, will not serve the purpose it is expected to. He would like us to go further and abolish this *budla* or carry forward transactions altogether. He would like us to have no blank transfers, but then one must say that we do not want to have these stock exchanges in forward delivery contracts. On the one hand it has been urged, and rightly urged, that forward market in stocks and securities is a necessity

in order to give facilities to the investing public to find certain channels for investment in industries. We want to industrialise the country rapidly, and I think it will be for the good of the country if we allow these stock exchanges to function properly under the regulation and control of the Government.

About these blank transfers I have already stated when I moved the motion for consideration that it is a very knotty problem. There are two sides to the question. Some say there ought not to be blank transfers. Some say it is necessary. There was sharp difference of opinion even in the Gorwala Committee which reported on this matter, and therefore we have thought it advisable not to have any provision in the Act itself, but to take powers to frame rules and regulations wherein we will consider this question very carefully. We will discuss this question with the authorities of the stock exchanges, the Reserve Bank and other bank authorities and try to find out a way which will not hamper the development of the stock exchanges and at the same time serve the purpose while doing away with the mischief that blank transfers are said to create. The Committee had also advisedly put in its report that the Government may consider this question and see that blank transfers are not allowed for an indefinite period to remain in the market, that a period of six months or so may be prescribed. But that can be done only after a very careful study of the whole question and we cannot immediately take any action which may create difficulties in the healthy development of the business in stocks, shares and securities.

My friend Shri Bhawanji supported us throughout. He only wanted to know about options, and also whether there will only one stock exchange in a notified area or more will be allowed. It has been made clear that there can only be one stock exchange in a notified area, but it will be our earnest

effort to see that, if there are more than one stock exchanges working, they are amalgamated to form one stock exchange only. Therefore, we have also taken powers to see that the membership is not confined only to those who are at present members of the stock exchange proposed to be recognised. We have specifically provided that when the stock exchange authorities come to Government for recognition, we shall prescribe certain membership. We do not want to create a monopoly for those who are today members of the stock exchange, but we want to give opportunities to all well-deserving honest people who want to be brokers of the stock exchanges, provided they accept the conditions and the qualifications that are prescribed in the rules and regulations. I hope my hon. friend Shri Bhawanji will be satisfied with this.

**Shri Bhawanji:** I am satisfied.

**Shri M. C. Shah:** With regard to options, he said that he was in favour of making these options illegal. He was absolutely right in advocating that options should be made illegal and should be penalised, there should be punishment to the extent of one year, though that is a small one, for I would have liked a greater period. It is true that certain operators are indulging in this option business. To my mind, the business of options is nothing but gambling, and that gambling should be curbed at any cost. I may assure my hon. friend that after this Bill is passed into an Act, and it is administered, it will be the earnest desire of the Government of India to see that this option business is curbed and those who are dealing in options are brought to book, that is to say, arrested, prosecuted and sentenced. Unless we do that, perhaps this option business will go on for ever.

There is no question of only regulating options, because it is nothing but gambling, according to what I understand of options. Therefore, I feel that there is no case for allowing options even in a regulated form. If

we allow options in a regulated form, it will be nothing short of allowing gambling. I am sure the whole House will be one with me when I say that we cannot allow gambling in the form of options on the stock exchange. It has been declared illegal and made punishable in the forward markets case. I do not know why yet someone dealing in option on those exchanges should not be arrested and proceeded against. So far as contracts in securities and shares are concerned, when this Bill is passed into an Act and it comes into force, I feel that the administration will take all possible and necessary steps to bring to book those who are dealing in these options. I have already explained and answered the various points raised in the course of the debate, and I am sure hon. Members will agree to accept the motion I have moved for consideration of the Bill as reported by the Joint Committee.

**Mr. Deputy-Speaker:** The question is :

"That the Bill to prevent undesirable transactions in securities by regulating the business of dealing therein, by prohibiting options and by providing for certain other matters connected therewith, as reported by the Joint Committee, be taken into consideration."

*The motion was adopted.*

**Mr. Deputy-Speaker:** The House will now take up the clause-by-clause consideration. There are no amendments to clauses 2 and 3. To clause 4, there are two amendments, namely amendments Nos. 6 and 7 in the names of Shri Tulsidas and Shri G.D. Somani, but I do not find any of them here. Similarly there is an amendment to clause 5, namely, amendment No. 8 in the names of the same hon. Members. I shall put clauses 2 to 5 to vote.

The question is:

"That clauses 2 to 5 stand part of the Bill"

*The motion was adopted.*

*Clauses 2 to 5 were added to the Bill.*

**Clause 6** (Power of Central Government to call for periodical returns etc.)

**Shri M. C. Shah:** I beg to move:

Page 5 line 34—

add at the end "whether directly or indirectly".

We have provided in sub-clause (4) of this clause that where an inquiry in relation to the affairs of a recognised stock exchange or the affairs of any of its members in relation to the stock exchange has been undertaken, every director, manager, secretary or other officer of the stock exchange, and so on, will have to come and give whatever information is in their possession.

There are sometimes cases wherein there is a case of cornering or there is a case of bear raid which may be indulged in through certain brokers. At the same time, there are cases where the persons who are the real culprits remain behind. They will not give their names, but they will try to take all other names. Therefore, we have provided that those who are concerned directly or indirectly also should come and give information when we make an enquiry in regard to the affairs of the stock exchange or any of its members in relation thereto. We want to rope in all those people who are under the cloak or disguise of an innocent person, but who really speaking, are the guilty persons. It is with this end in view that we have moved this amendment.

**Mr. Deputy-Speaker:** The question is:

Page 5, line 34—

add at the end "whether directly or indirectly".

*The motion was adopted.*

**Mr. Deputy-Speaker:** There is amendment No. 9 also to this clause, but I find that the hon. Members in

whose names it stands are not present here.

The question is:

"That clause 6, as amended, stand part of the Bill".

*The motion was adopted.*

*Clause 6, as amended, was added to the Bill*

*Clause 7 was added to the Bill.*

**Clause 8—** (Power of Central Government to direct rules to be made or to make rules).

**The Deputy Minister of Finance (Shri B. R. Bhagat):** I beg to move:

Page 6, line 28—

for "the Indian Companies Act, 1913" substitute "the Companies Act, 1956".

This is just a formal amendment.

**Mr. Deputy-Speaker:** There is one other amendment to this clause, namely amendment No. 10, but the hon. Members in whose names the amendment stands, are not present.

The question is:

Page 6, line 28—

for "the Indian Companies Act, 1913" substitute "the Companies Act, 1956".

*The motion was adopted.*

**Mr. Deputy-Speaker:** The question is:

"That clause 8, as amended, stand part of the Bill".

*The motion was adopted.*

*Clause 8, as amended, was added to the Bill.*

**Clause 9—** (Power of recognised stock exchange to make bye-laws)

**Dr. J. N. Parekh:** I beg to move:

(i) Page 7—

for lines 1 to 3 substitute:

"(c) the submission to the Central Government by the clear-

ing-house as soon as may be after each periodical settlement of all or any of the following particulars as the Central Government may from time to time require, namely:—”.

(ii) Page 7—

omit lines 11 and 12.

(iii) Page 7—

after line 12, insert:

“(cc) the publication by the clearing-house of all or any of the particulars submitted to the Central Government under clause (c) subject to the directions, if any, issued by the Central Government in this behalf;”.

Shri M. C. Shah: We accept these amendments.

Mr. Deputy-Speaker: The question is:

Page 7—

for lines 1 to 3, substitute:

“(c) the submission to the Central Government by the clearing-house as soon as may be after each periodical settlement of all or any of the following particulars as the Central Government may from time to time require, namely:—”

*The motion was adopted.*

Mr. Deputy-Speaker: The question is:

Page 7—

omit lines 11 and 12.

*The motion was adopted.*

Mr. Deputy-Speaker: The question is:

Page 7—

after line 12, insert:

“(cc) the publication by the clearing-house of all or any of the particulars submitted to the Central Government under clause (c) subject to the directions, if any, issued by the Central Government in this behalf;”.

*The motion was adopted.*

Mr. Deputy-Speaker: The question is:

“That clause 9, as amended, stand part of the Bill”.

*The motion was adopted.*

*Clause 9, as amended, was added to the Bill.*

Mr. Deputy-Speaker: Then regarding clause 14, there are two amendments, Nos. 19 and 29. But the hon. Members concerned are not present in the House. I shall put clauses 10 to 20 (both inclusive) to the vote of the House.

The question is:

“That clause 10 to 20 stand part of the Bill”.

*The motion was adopted.*

*Clauses 10 to 20 were added to the Bill.*

Clause 21— (Power to compel listing of securities by public companies).

Amendment made: Page 13, line 37—

for “the Indian Companies Act, 1913”, substitute “the Companies Act, 1956”.

[Shri B. R. Bhagat]

Mr. Deputy-Speaker: The question is:

“That clause 21, as amended, stand part of the Bill”.

*The motion was adopted.*

*Clause 21, as amended, was added to the Bill.*

*Clauses 22 to 26 were added to the Bill.*

Clause 27 (Title to dividends)

Shri M. C. Shah: I beg to move;

Page 16—

(i) re-number clause 27 as sub-clause (1) of that clause;

[Shri M. C. Shah]

(ii) line 16, for "who claims the dividend, lodges the security" substitute—

"who claims the dividend from the transferor has lodged the security";

(iii) omit lines 20 to 24; and

(iv) after line 35, add:

"(2) Nothing contained in subsection (1) shall affect—

(a) the right of a company to pay any dividend which has become due to any person whose name is for the time being registered in the books of the company as the holder of the security in respect of which the dividend has become due; or

(b) the right of the transferee of any security to enforce against the transferor or any other person his rights, if any, in relation to the transfer in any case where the company has refused to register the transfer of the security in the name of the transferee."

I had explained this while introducing the Bill. We had in the original Bill a clause to the effect that the person in whose name the share, stock or security stood could claim and be paid the dividend unless the transferee had lodged his documents with the company before the date the dividend was due. There were some difficulties. It was stated that the companies might be affected. As a matter of fact, companies are entitled to pay dividends to those persons in whose names the shares, stocks or securities stand. Therefore, in order to obviate that difficulty, we have inserted this provision that the company will be entitled to pay dividend and also that the transferee's rights will be kept rather secure.

What will happen will be this. Suppose A is a registered shareholder in a certain company. He has already sold his share to B on blank transfer.

Now that company will give the dividend to the shareholder whose name is there. He can receive and retain it unless the transferee (B) lodges the documents with the company.

This is with a view to restrict the unlimited and indefinite period up to which blank transfers are kept, because whenever there is a dividend declared, if the person in whose name the share stands gets the dividend, even though he may have given the share on blank transfer to another person, there will be difficulty to the transferee to get that dividend from that man who has transferred his share, except when he has already shown his intention or has already deposited the transfer deed etc. with the company with instructions to transfer the share to his name. So this is with the sole object of preventing blank transfers being kept blank for an indefinite period.

Mr. Deputy-Speaker: The question is:

Page 16—

(i) re-number clause 27 as sub-clause (1) of that clause;

(ii) line 16, for "who claims the dividend, lodges the security" substitute—

"who claims the dividend from the transferor has lodged the security";

(iii) omit lines 20 to 24; and

(iv) after line 35, add:

"(2) Nothing contained in subsection (1) shall affect—

(a) the right of a company to pay any dividend which has become due to any person whose name is for the time being registered in the books of the company as the holder of the security in respect of which the dividend has become due; or

(b) the right of the transferee of any security to enforce against

the transferor or any other person his rights, if any, in relation to the transfer in any case where the company has refused to register the transfer of the security in the name of the transferee."

*The motion was adopted.*

**Mr. Deputy-Speaker:** The question is:

"That clause 27, as amended, stand part of the Bill".

*The motion was adopted.*

*Clause 27, as amended, was added to the Bill.*

*Clauses 28 to 31, Clause 1, the Enacting Formula and the Title were added to the Bill.*

**Shri M. C. Shah:** I beg to move:

"That the Bill, as amended, be passed".

**Mr. Deputy-Speaker:** The question is:

"That the Bill, as amended, be passed".

*The motion was adopted.*

#### HINDU MINORITY AND GUARDIANSHIP BILL

**The Minister of Legal Affairs (Shri Pataskar):** I beg to move:

"That the Bill to amend and codify certain parts of the law relating to minority and guardianship among Hindus, as passed by Rajya Sabha, be taken into consideration".

This is a very simple measure and the simplest part of the original Hindu Code. We have already passed the Succession Act and the Marriage Act so far as Hindus are concerned.

This Bill which is in addition to the provisions of the present Guardians and Wards Act is intended to preserve some of the special features so far as

the question of guardianship amongst Hindus is concerned. Because, as I would presently explain, this is in addition to the provisions of the Guardians and Wards Act and not in derogation of it.

The history of this simple measure is this. This Bill was introduced as far back as 9th April, 1953; and, ultimately it was referred to a Select Committee. It was also considered, at a certain stage, by both Houses and it was passed by the Rajya Sabha also on the 7th April, 1955. On account of the importance of the other parts as well as of the fact that it was thought that it would be much desirable that this part and the remaining parts should be taken after the important parts of the Hindu Code had been taken up and passed by this House, this was delayed.

I would not take long and I would briefly—probably as it is now more than a year that this Bill was considered by this House—go through the few provisions that are contained in this Bill. This has got only 13 clauses. The first clause is a merely formal one. The clause relating to extent is also the usual one which has already been passed with respect to other Bills which we have passed.

Clause 2 is important. In order to assure persons that what is tried to be done by this Bill is in addition to the provisions of the Guardians and Wards Act, it is expressly mentioned here.

Clause 3 relates to the application of this Act and it is the same as has been inserted in the other two Acts which we have already passed. So, I need not say anything about that.

Clause 4 relates to definitions and they are also very simple. The first is a definition of a minor which is the same as is contained in the Indian Majority Act. 'Minor' means a person who has not completed the age of 18 years. Then there is a definition of guardian. It has been stated that