SEBI surplus transfer

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***Source**: The Hindu*

Manifest pedagogy

UPSC will have an eye on performance of government, fiscal deficit, budgeting targets, autonomous institutions and their independent functioning. One key issue here is the role of surplus from financial institutions such as the RBI and SEBI

In news

- SEBI has opposed centre's proposal to transfer surplus money to CFI

Placing it in syllabus

Financial Sector Reforms: LPG

Static dimensions

- Security and Exchange Board of India(SEBI)
- Fiscal deficit concerns and dividends from government institutions

Current dimensions

- Surplus with SEBI and transfer issues
- Role of SEBI in market development
- Fintech sandbox in India
- Fintech 2.0

Content

Surplus with SEBI and transfer issues:

The government's proposal to transfer surplus money with the Securities and Exchange Board of India (SEBI) to the Consolidated Fund of India (CFI) has met with a strong opposition from the regulatory body as it feels that the proposal would result in compromising its “autonomy and its ability to function effectively” towards the progress and development of the Indian securities market.

According to the recently proposed amendment to the SEBI Act, SEBI would constitute a reserve fund and 25% of the annual surplus of the general fund would be put in the reserve fund. Further, the size of such reserve fund cannot exceed the total annual expenditure of the preceding two financial years.

More importantly, the surplus of the general fund, after factoring in all the SEBI expenses and the transfer to the reserve fund, needs to be transferred to the CFI as per amendments proposed in the Finance Bill, 2019.

SEBI has called the proposal “regressive” especially since the SEBI did not have any mandate to raise revenue for the government. This decision has been opposed by the SEBI which has submitted in writing a letter to the Finance Ministry enumerating it’s objections.

As the autonomy of a regulatory institution like SEBI is critical, the proposal would result in compromising SEBI’s autonomy and its ability to function effectively towards its stated objectives, and thus, hamper the progress of Indian securities markets.

The proposal will also impinge on the financial autonomy of the SEBI as it will have to seek government approval for capital expenditure, which can range from setting up IT infrastructure, expanding the organisational capacity, or any other physical and soft infrastructure that SEBI may require in the light of continuously evolving global securities markets to increase its employee strength.”

All the penalties levied by the SEBI and settlement amounts already gets credited to the CFI. The general fund of the SEBI, which currently has a balance of over ₹3,000 crore, is used to meet the expenses of the regulatory body, including salaries and allowances. The fund gets money via charges that the SEBI levies on market participants in the form of registration or processing fees.

However, the Finance Ministry has refused pleas from the capital markets regulator to amend the provision that mandates that about 75% of its surplus be transferred to the Centre’s coffers.

SEBI:

- The Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India.
- Established in 1988 and given statutory powers through the SEBI Act, 1992.
- The Preamble of SEBI describes its basic functions as “to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected there with or incidental there to”.
- SEBI has to be responsive to the needs of three groups, which constitute the market:

– issuers of securities

– investors

– market intermediaries

- SEBI has three functions rolled into one body: quasi-legislative, quasi-judicial and quasi-executive.
- It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders in its judicial capacity.
- Appeals against SEBI are submitted Securities Appellate Tribunal and second appeal lies directly to the Supreme Court.

It has the following powers:

- to approve by–laws of Securities exchanges.
- to require the Securities exchange to amend their by–laws.
- inspect the books of accounts and call for periodical returns from recognized Securities exchanges.
- inspect the books of accounts of financial intermediaries.
- compel certain companies to list their shares in one or more Securities exchanges.
- registration of Brokers and sub-brokers.

Fiscal deficit concerns and dividends from RBI:

The finance ministry has recently sought from the RBI Rs 27,380 crore that was withheld by the central bank towards risks and reserves in the previous years. The RBI, which follows July-June financial year, has already transferred Rs 40,000 crore in the current fiscal.

If the central board of the RBI approves transfer of Rs 28,000 crore requested by the government as interim dividend for the current fiscal, the total surplus transfer by the central bank would be Rs 68,000 crore in 2018-19.

According to sources, the government expects Rs 69,000 crore dividend in the next financial year. The government has projected to mobilise Rs 82,911.56 crore as dividend or surplus from the RBI, nationalised banks and financial institutions during 2019-20.

As per the RBI Act, after making provision for bad and doubtful debts, depreciation in assets, contribution to staff and superannuation fund and for all matters for which provision is made under the Act, the balance of the profits shall be paid to the central government.

The receipt from various sources, including RBI dividend, helps government meet fiscal deficit target. *In the Interim Budget 2019-20, the government has projected a fiscal deficit target of 3.4 per cent for the next financial year 2019-20.*

The government has also come out with a road map to reduce the fiscal deficit, the gap between total expenditure and revenue, to 3 per cent of the GDP by 2020-21, and eliminate primary deficit. *Primary deficit refers to the deficit left after subtracting interest payments from the fiscal deficit.*

In Budget Estimate (BE) 2018-19, the primary deficit was calculated as 0.3 per cent of GDP. Primary deficit in Revised Estimate (RE) 2018-19 is calculated as 0.2 per cent of the GDP. The document has projected nil primary deficit for 2020-21 and 2021-22 financial years which is a positive sign as it shows reduced usage of borrowed funds to pay for the existing liabilities.

Role of SEBI in market development:

Functions of SEBI can be broadly divided into three categories,

- Regulatory functions
- Developmental functions
- Protective functions

Regulatory functions include:

- Every mutual fund or investment plan, before being introduced into the market is to be regulated by this body.
- Code of conduct, rules and regulations for brokers, merchant bankers who operate in the stock market are put in place by SEBI.
- Anyone who is associated with stock exchange have to be registered with SEBI and it will regulate their functions.
- SEBI oversees the process when one company takes over

another one.
- The audit and inquiries of various stock exchanges

Developmental functions include:

- If someone is trained to become an intermediate in the investment market in India, then his training will be promoted by SEBI.
- Stockbrokers who are registered can now trade through the internet.If going through the stock exchange then an initial offer made by the public on the primary market is also permissible

Protective functions include:

- Making sure that no kind of insider trading is allowed.
- If one is caught on the charges of insider trading, then one is liable to be punished and fined by SEBI.
- Stopping a company from doing price rigging (the company in order to gain high profits, inflate their prices through artificial means and thus the consumer or the investor gets cheated of funds) to ensure a fraudulent free market.
- Checking the unfair trade practices.
- Educating investors of fraudulent practices.
- The interest of many debenture holders needs to be protected and that is what SEBI does with a book of strict guidelines

Fintech sandbox in India:

Financial technology, shortened to fintech, is an emerging industry that uses technology to improve activities in finance. The use of smartphones for mobile banking, investing services and cryptocurrency are examples of technologies aiming to make financial services more accessible to the general public.

A sandbox is an enabling infrastructure or interface, which is made available to an outside innovator or fintech by a bank, so that they can test their product and services. The sandbox not only protects the bank's core banking solution (CBS), which is the backbone of a bank or a financial institution, but also allows a CBS kind of interface for testing a product in a scalable manner. This live testing reduces time to market and also allows room for failure without actually going for a commercial launch.

Today, many large banks are engaging with hundreds of fintechs for servicing their customers better. Globally, there are regulators that have allowed sandbox interface to innovators by allowing banks and financial institutions to share customer data with them in a secure environment. The RBI recently said that it would be shortly allowing sandbox in India by creating a regulatory and supervisory framework for the banks and institutions.

However, the customer's privacy and data protection are some of the key issues when it comes to sandbox. Any customer data leakages not only mean a loss of reputation but can also result in lawsuits for the bank or financial institution. The security is yet another concern as banks are exposing their systems to start-ups or innovators, which are not regulated by any entity

Fintech 2.0:

The wider objective of FinTech is to serve the unmet financial needs of those segments of the population which are not the core target segments of traditional financial services models. Thus, FinTech aims to contribute to the larger goal of financial inclusion

Efforts in this direction have manifested in several ways:

- Rise of new age FinTech start-ups rolling out innovative solutions using low-cost technology
- Strategic partnerships between incumbents and FinTechs

- Launch of new digital products or digital-only banks by incumbents
- Government intervention through creation and operationalisation of FinTech policies, launch of initiatives such as smart cities, portals for quick approval of loans for small and medium scale enterprises (SMEs), etc

By creating a sustainable ecosystem, the ultimate aim of FinTech 2.0 would be to ensure a significant impact of FinTech on the country's gross domestic product (GDP). Hence the focus of FinTech 2.0 should be on the overall financial well-being of the population and not just on particular transactions.

FinTechs can take the support of the existing digital platforms created by aggregators operating in segments such as healthcare, mobility and hospitality, and leverage customer data for offering customised products. To reach segments such as marginal farmers and labourers, FinTechs can leverage data from co-operatives and offer them specific products.

Another key factor in providing financial services is customer support. The target segments would need assistance while availing services. One of the ways to contain costs is driving community-based customer support by forming communities where users answer most of the queries raised by fellow users. Vernacular language support can further drive adoption of such services and reduce support costs

CONCLUDING REMARK:

In light of the above issues, the role of SEBI becomes more complex, data driven and calls for multiple research frameworks to safeguard against frauds in the financial system. Thus critics argue that role of SEBI itself requires capacity building, trust creation through better public outreach and regulatory overhaul. Thus, at this juncture the excessive demand has to be thoroughly analysed and even if demand has to be addressed it should be based on independent committee guidelines through scientific principles.