

CHAPTER IV : MINISTRY OF FINANCE

Securities and Exchange Board of India

4.1 Non-repayment of loan to Government of India

Securities and Exchange Board of India defaulted in repayment of Government of India loan of Rs 105 crore obtained for capital expenditure and utilised the same for investment contrary to the purpose of loan.

Securities and Exchange Board of India (SEBI) was constituted under a resolution passed by the Government of India in April 1992 and came into existence under the SEBI Act 1992. The basic objective of SEBI was to protect the interest of investors in securities by promoting the development and regulation of securities market. SEBI met its revenue expenditure from resources generated internally. However, Government's budgetary support in the form of interest free loan was sought for meeting its capital expenditure.

After repayment of Rs 10 crore SEBI stopped repayment of balance amount of loan

Government granted interest free loans to SEBI amounting to Rs 115 crore between 1992-97 to meet their capital expenditure requirements without first ascertaining the ability of SEBI to repay the loans. SEBI failed to give any concrete proposals for the repayment of the loan despite requirement by Ministry of Finance (MoF) in January 1997. SEBI repaid only Rs 10 crore between March 1995 and March 1998 and requested MoF in March 1998 to convert the outstanding loan of Rs 105 crore into non-refundable grant. MoF had not acceded to the request till September 1999.

Registration to merchant bankers was allowed for three years at a time but fees was collected annually, prompt action not taken when merchant bankers started defaulting in payment of fees

One of the sources of SEBI's income was registration fee payable by all stock brokers including merchant bankers. It was noticed in audit that due to lacunae in the rules on payment of first year's registration fee SEBI granted registration to merchant bankers for three years Merchant bankers with registration for three years continued business without payment of registration fee for subsequent two years Consequent loss due to non-payment worked out to Rs 267.07 lakh which was not enforceable due to lack of any provision in the rules. At the instance of audit SEBI decided in August 1999 to amend the rules paving the way for payment of registration/renewal fee as a single payment at the time of grant of registration /renewal. The implementation of the same was awaited (November 1999).

Thus, while income from SEBI's regulatory activities had declined, income from investments being financed from Government interest free loan of Rs 115 crore had considerably increased during the period 1995-99 as given in the table 4.1.

Table 4.1 : Income from investments and regulatory functions

(Rs. in lakh)

Year	Income from investments	Income earned from regulatory function (Total income excluding income from investments)	Total income (Col 2 + Col 3)	Percentage of income from regulatory function to total income (Col 3/Col 4)* 100	Percentage of investment income to income earned from regulatory function (Col2/Col3)*100
1	2	3	4	5	6
1995-96	13.41	33.24	46.65	71.25	40.34
1996-97	17.17	28.60	45.77	62.48	60.03
1997-98	17.15	20.81	37.96	54.82	82.41
1998-99	17.53	22.46	39.99	56.16	78.05

SEBI, by investing substantial funds instead of generating revenue from its regulatory activities, failed not only to properly utilise interest free loan of Rs 115 crore granted for its capital expenditure but also identify ways of repayment.

The matter was referred to the Ministry in October 1999; their reply was awaited as of February 2000.