

SEBI chief rues low corpus of investor protection funds

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Will push NSE, BSE to shore up reserves

The insubstantial corpus of stock exchanges' investor protection fund (IPF) is a concern, SEBI Chairman Ajay Tyagi said on Wednesday, adding that the regulator will soon take corrective measures. IPFs are used to pay out investors if their broker defaults on dues.

The BSE has ₹784 crore in its IPF kitty while the NSE, which churns 85-90 per cent higher volumes, has only ₹594 crore. The annual profits and earnings of the exchanges are way higher. Also, broker defaults in the past couple of years have been on the rise and the funds will be woefully short if every impacted investor has to be paid.

It is one of the reasons the stock exchanges are delaying declaring brokers as defaulters and have even imposed a cap of ₹25 lakh for pay out to each investor. Clients can claim money from stock exchanges only after a broker is officially declared a defaulter.

"The IPF is woefully insufficient and we have examined it. We will not allow that to be a criterion for delaying declaring brokers as defaulters. We will soon be taking corrective actions. I can assure you of that," Tyagi said in response to a query from Business Line at a virtual conference organised by the Confederation of Indian Industries to discuss financial markets reforms.

The Karvy example

Of late, many brokers have defaulted on their client payments after their derivative bets went wrong. SEBI is flooded with complaints of funds diversion by brokers to the derivative segment. A prominent broker, Karvy, was caught using clients' shares as collateral to get bank loans. There were 90,000 such clients, SEBI found. The regulator ordered a reversal of pledges by Karvy and asked the broker to return clients' shares. However, many are still pending, sources said.

Tyagi also spoke about bringing a balance between delivery-based trades in the cash market and derivatives to curb excessive speculation in the markets.

"In the derivatives markets, we now have physical delivery as a key criterion. That is to reduce speculation. In the cash market, too, due to the introduction of intra-day and upfront margin, speculation will reduce. But (reviving cash markets) needs further steps," he said.

Tyagi further said there is a need for high consultation among regulators (read RBI) to improve the corporate bond market.