

SEBI asks NSE to raise corpus of its investor protection fund to ₹1,500 cr

Updated on November 18, 2020

The regulator also working on formula by which stock exchanges will hike IPF every year Market regulator SEBI has asked the National Stock Exchange to increase the corpus of its investor protection fund to ₹1,500 crore from the current ₹550 crore. The low corpus for the IPF has become a key cause of concern for stock market investors in the backdrop of rising default by brokers. Just in the past three years, broker defaults have exceeded ₹5,000 crore. Stock exchanges are required to settle investor dues from the IPF.

Further, SEBI will also work out a formula by which stock exchanges will increase the IPF every year, sources said.

In October, while responding to a question from Business Line at a virtual conference, SEBI Chairman Ajay Tyagi had expressed concerns on the low corpus of the IPF maintained by stock exchanges and said the regulator would take corrective measures.

Currently, the BSE has ₹784 crore in its IPF kitty while the NSE, which churns around 85-90 per cent higher volumes, has only ₹594 crore. The annual profits and earnings of exchanges are considerably higher. The NSE recently reported more than ₹1,000 crore in revenues for the first six months of the current financial from operational income.

Rising defaults

Also, broker defaults in the past couple of years has been on the rise and the funds would be woefully short if every investor has to be paid. This is one of the reasons why 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 BSE on Tuesday said that SEBI had directed the exchange to conduct an annual review to ascertain the adequacy of its IPF, disclose the corpus on its website and update the same on a monthly basis. A SEBI directive has also been sent to Metropolitan Stock Exchange.

The BSE, in a release, said that it had received the SEBI letter dated November 13 to enhance the effectiveness of the IPF as the regulator has decided to revamp the grievance redress mechanism at stock exchanges with regard to clients of defaulting trading members (TMs).

The BSE said SEBI had asked it to implement the prescribed Standard Operating Procedure (SOP) for processing of investor's claims and timeline for declaration of a defaulter. It had also asked the exchange to disseminate the policy for processing of investors' claims on its website along with FAQs for easy understanding of investors. SEBI has further asked the BSE to give adequate notice to investors about any amendment to the exchange's policy on processing of their claims.

Shriram Subramanian, MD, In Govern, an investor advisory firm, said there has to be a proper metrics to decide the corpus of investor protection fund. It should be closely linked to the volumes traded on an exchange, which will make it meaningful and effective. Otherwise, it is difficult to specify a proper corpus. A formula for establishing a corpus is important. Deciding what amount is correct for an exchange IPF should not be not left to any individual or institutions or a regulators own assessment.

Disclaimer: The content above is taken from the source mentioned

Resource: Business Line, 18 Nov 2020

Copyright © 2019 Aparajitha Corporate Services Pvt., Ltd. All Rights Reserved.