SEBI needs financial autonomy

Why in News?

SEBI has asked the finance ministry to reconsider the aspects of the Union Budget, 2019-20 that seek to amend the SEBI Act of 1992.

What is the Finance bill about?

- It has made major changes to requirements on the market regulator, Securities and Exchange Board of India (SEBI).
- The proposed amendments suggest that $3/4^{th}$ of the surplus retained by SEBI every year be handed over to the government.
- The remainder $1/4^{th}$ part should go into a "reserve fund" but that, too will be capped.
- The level set by the government is 2 years' expenditure.
- It requires SEBI to seek the approval of the government for any capital expenditure.

What are the differences in opinion?

- Government - Argues that why a market regulator should sit on any pool of capital at all.
- Comptroller and Auditor General - Feels these amendments would undermine the parliamentary oversight of public funds.
- Unlike the Reserve Bank of India, the sums earned by SEBI are not enormous. So, the amount of funds the government is likely to receive from SEBI will be very low.
- This gives rise to the concern that the latest move is a desire to increase control over the regulator.

What does SEBI's chairman say?

- The SEBI chairman argues that the proposal is already being discussed by the Financial Stability and Development Council.
- He adds that the amendment to the SEBI Act could have waited for the Council's final decision.

What is the opinion of SEBI employees' association?

- It points out that transferring the regulator's surplus to the Government is equivalent to the regulatory action becoming a kind of additional tax on market participants.
- The letter also warns that "stubborn incentives" would be created.
- Governments always want to raise revenue, but SEBI has broader concerns such as market stability.
- A moral hazard problem would be created, in which these two incentives would clash.

What are other issues?

- It should be up to the regulator to decide if its duties require additional capital expenditure, through discussions of its duly constituted board.
- If SEBI feels it is earning too much through fees on market participants, its current mandate would mean that it would reduce its fees to broaden the market.
- If it requires updated facilities and more staff to monitor increasingly complex financial markets, the decision on this matter should be taken by the regulator with the consent of the board, not by the finance ministry.
- This is fundamental to what regulatory independence means.
- As the stability and regulation of the Indian markets are very much in the broader national interest, the government should rethink its decision.

Source: Business Standard

Quick Facts

Securities and Exchange Board of India (SEBI)

- It was established in 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992 (**SEBI Act, 1992**).
- The basic **functions** of SEBI
- To protect the investors interests in securities.
- To be a platform to promote, develop and regulate the securities market in India as well as the relating matters that are connected with it.
- To approve rules and laws pertaining to the stock exchanges.
- Examines books of accounts of financial mediators and recognized stock exchanges.
- To urge respective companies to list their shares in stock exchanges and manage the registration of distributors or brokers.
- SEBI board has three main **powers** – Quasi judicial, quasi legislative and quasi executive.