SECURITIES CONTRACTS (REGULATION) BILL, 1954

The Minister of Finance (Shri C. D. Deshmukh): I beg to move:

"That the Bill to prevent undesirable transactions in securities by regulating the business of dealing therein, by prohibiting options and by providing for certain other matters connected therewith, be referred to a Joint Committee of the Houses consisting of 45 members, 30 from this House, namely:—

1. Shri Chimanlal Chakubhai Shah, Shri Bhawanji A. Khimji, Shri Khushi Ram Sharma, Dr. Jayantilal Narbheram Parekh, Shri Shivram Rango Rane, Shri S. S. Natarajan, Shri C. P. Matthen, Shri C. R. Basappa, Shri R. P. Navatia, Shri Radhelal Vyas, Shri Bhupendra Nath Misra, Swami Ramanand Shastri, Shri Sarju Prasad Misra, Choudhary Raghubir Singh, Shri Krishnacharya Joshi, Shri B. R. Bhagat, Shri Banarsi Prasad Jhunjhunwala, Shri Jagannath Kolay, Shri Lokenath Mishra, Shri Tek Chand, Shri Ghamandi Lal Bansal, Shri Radheshyam Ramkumar Morarka, Shri U. M. Trivedi, Shri Tulsidas Kilachand, Shri M. S. Gurupadaswamy, Shri Jaswantraj Mehta, Shri Narayan Rao Waghmare, Shri Kamal Kumar Basu, Shri T. B. Vittal Rao and the Mover,

and 15 members from Rajya Sabha;

that in order to constitute a sitting of the Joint Committee the quorum shall be one-third of the total number of members of the Joint Committee;

that the Committee shall make a report to this House by the 15th February, 1956;

that in other respects the Rules of Procedure of this House relating to Parliamentary Committees will apply with such variations and modifications as the Speaker may make; and

that this House recommends to Rajya Sabha that Rajya Sabha do join the said Joint Committee and communicate to this House the names of members to be appointed by Rajya Sabha to the Joint Committee."

The subject of stock exchange has had a long history. I do not, however, wish to dialate on the earlier history of this subject in the twenties and the thirties, except to make a passing reference to two successive committees, one presided over by Sir Wilfred Atlay, a former Chairman of the London Stock Exchange and the other by Mr. W. B. Morrison who was also connected with the London Stock Exchange. These committees carried out exhaustive enquiries into the affairs of the Bombay Stock Exchange in 1923 and 1937 respectively but for various reasons which it is unnecessary to recount here, their recommendations could not be fully implemented and did not, therefore, secure the objects which they sought to achieve.

Coming to more recent times, it was the post-war boom in the stock exchanges from the end of 1945 to the beginning of 1946 and its aftermath, which drew attention, once again, to the urgency of legislation for the regulation of stock exchanges and trading in securities in these exchanges and the then Economic Adviser of the Ministry of Finance was directed to make a comprehensive study of this subject. His report was received in 1948, and in the same year an official committee of representatives of the Government of India, the Reserve Bank and the Government of Bombay was appointed to submit detailed proposals for legislation.

Among other issues, the committee was required to examine specifically the desirability of prohibiting forward transactions in the stock exchanges, of abolishing blank transfers subject to certain exceptions and of setting up clearing houses for the settlement of contracts—some of the major issues of stock exchange trading policy which have been the subject of much debate and controversy in the past.

The committee made several recommendations but took the general view that an essential pre-requisite for the introduction of reforms in stock exchange practice was the reform of Company Law and practice in several major directions. In 1951, another committee was informally set up to process the recommendations of the official committee and to prepare a draft Bill. Like their predecessors, this committee also considered it difficult to deal with the problem of blank transfers and other related issues of stock exchange trading policy, in the absence of centian conditions and institutional changes which they considered basic to any proposal for reforms in these matters.

A further committee under the chairmanship of Shri A. D. Gorwalla and including the Presidents of the important stock exchanges, representatives of banking and insurance and of share-holders and accountants was set up later in the year and was required to furnish a revised draft of the Bill which the informal committee of 1951 had prepared.

Shri V. P. Nayar (Chirayinkil): Who represented the share-holders? Is it Mr. Kapadia?

Shri C. D. Deshmukh: The hon. Member will find it from a reference

[Shri C. D. Deshmukh]

to the report of the committee which I hope is available.

2 P.M.

The present Bill now before the House is largely based on the recommendations of the Gorwalla committee and the draft prepared by it. The report of this Committee and the revised draft Bill prepared were circulated to the principal stock exchanges, chambers of commerce and other interested associations and individuals. The comments received from these bodies and individuals have since been studied and analysed in the Finance Ministry, and have been taken into account in the preparation of this Bill. The present Bill now before the House is thus largely based on the recommendations of the Gorwalla Committee and the draft Bill prepared by it subject to modifications relating to a few important points in respect of which the Government have either considered it necessary to deviate from the recommendations of this Committee or to defer action in the light of the comments and criticisms which they received from individuals and associations. I think it will be reasonable to claim that, in its present form, the Bill now before the House represents the largest common measure of agreement among all those who are likely to be directly concerned with it, including the more enlightened of the stock exchanges and the recognised organisations of trade and industry.

I trust hon. Members will bear with me if I make a few general observations about the scope and functions of a well-organised and efficient securities market, before I proceed to explain the basic principal underlying this piece of legislation. It may be a useful introduction to my comments on the provisions of the Bill which will just follow, but I do not wish to say much on these general issues, as I have had prepared and circulated a short technical note with a glossary of technical terms to the hon. Members on the general role of stock exchanges in the economy of a country with particular reference to the more important of their trading policies and practices in this country. The economic services which a well constituted and efficiently run securities market can render to a country with a large private sector operating under the normal incentives and impulses of private enterprise are considerable. In the first place, it is only an organised securities market which can provide sufficient marketability and price continuity for shares so necessary for the needs of investors. Secondly, it is only such a market which can provide a reasonable measure of safety and fair dealing in the buying and selling of securities. Thirdly, through the inter-play of demand for and supply of securities, a properly organised stock exchange assists in a reasonably correct evaluation of securities in terms of their real worth. Lastly, through such evaluation of securities the stock exchange helps in the orderly flow and distribution of savings, as between different types of competitive investments.

These services can, however, be rendered by a securities market only if, as I have stressed, it is properly constituted and organised. Sceptics may argue that it is impossible for any securities market to function properly because of the undesirable activities of speculators, and yet genuine speculation, which is based on a reasoned forecast of the real value of the investments, represented by the securities which are dealt with on the exchanges, performs a very important function. No stock exchange can operate purely on the basis of investment buying or selling, because 'pure' investors in that sense are necessarily few in number and usually possess very limited resources. They cannot provide the requisite volume or continuity of business, which alone would enable a large number of buyers and sellers to trade at all times in the exchanges and to bring about an adjustment of the relative values of the securities in which they trade in conformity with their real worth. It is the buying and selling of securities on a large scale on the basis of reasoned forecasts which alone can give the necessary breadth and continuity to the market. Informed speculation, which takes a reasonable view of future prospects and thus brings about an appropriate adjustment of security values, thus helps not only in the channeling of savings into the most productive lines but also attracts new savings for investment into particular classes of securities. Too often, unfortunately, speculation in shares and scripes is not based on any reasoned calculation of the prospects of a company, and comes very close to gambling. The basic object of stock exchange reform is, therefore, to regulate speculative activities so that they may not degenerate into gambling. It is not the object of such a reform to interfere with investment buying or selling or even with legitimate speculation as long as it conforms to the rules of the game. It is with this object in view that the Bill now before the House has been framed. The main principles underlying it are these:

Firstly, all existing and future stock exchanges will need to be recognised by the Central Government. Clause 4 lays down the conditions for the grant of such recognition and the procedure which should be followed in dealing with applications for recognition.

Secondly, the Central Government should have adequate power to regulate the constitution and organisation of the stock exchanges, but this power is not to be exercised except in consultation with the governing bodies of the stock exchanges concerned. These powers are intended to enable the Central Government to exercise a measure of external control over the activities of stock exchanges through the control over their constitution and regulation without interfering with their structural autonomy.

Thirdly, while every recognised stock exchange would be free to make or amend its bye-laws for the regulation and control of securities, subject to the approval of the Central Government, power is taken to make or amend these bye-laws under clauses 8, 9 and 10, but before the Central Government can exercise this power, it is required to consult stock exchanges in general or the governing body of a particular stock exchange, as the case may be, and also to record the reasons for making or amending the bye-law or bye-laws. As a further safeguard, it is provided that in all such cases a statement containing the Central Government's reasons for making or amending the bye-laws should be published in the official gazette.

Fourthly, in order to deal with abnormal and extraordinary situations which may develop in the stock exchanges from time to time, power is taken under clauses 11 and 12 to suspend the business of a stock exchange, to institute enquiries into its affairs generally or in respect of particular matters, or supersede a governing body or to appoint a governing body when it is considered essential to do so in any special case, or to withdraw recognition given to a stock exchange. These clauses provide that such power shall be exercised only in the interest of trade or in the public interest, and only after the governing body of the stock exchange concerned has had an opportunity to show cause against the action proposed by the Central Government. The reasons for the use of such power should also be published in the official gazette.

Fifthly, as regards the nature of the business to be carried on in the stock exchanges, clauses 13 to 19 provide, among other things, that no "ready delivery" and "futures" contracts in securities should be entered into otherwise than between members of a recognised stock exchange or through or with such members.

The object of this provision is to ensure effective control over these activities by requiring them to be carried on only in such recognised

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institutions. Then, the principal to principal contracts in securities, except between members of a recognised Stock Exchange, should be forbidden and no member of a Stock Exchange shall be permitted to enter into contracts as a principal except with the consent of his clients.

Further, in areas outside the jurisdiction of recognised Stock Exchanges all dealers in securities must be licensed on the lines of clause 1 of the Prevention of the Fraud (Investments) Act, 1939, in the United Kingdom. Certain exemptions from this rule are to be allowed in special cases.

Further, certain securities may be notified in which dealings would be permitted only subject to such conditions as the Central Government may prescribe. This power, would not, however, be exercised except after consultation with the Governing body of the Stock Exchange concerned.

Lastly, dealings in options in securities should be prohibited.

While the main principles underlying the proposed legislation are those that I have briefly summarised. I would refer to two or three other important provisions of a general nature which would be of considerable interest to the House. I refer to the Central Government's power to compel listing of securities by some public companies and the right of appeal granted to a company which has been refused a quotation on the Stock Exchanges. As hon. Members are aware, listing is not only of great advantage to an investor and to a company whose shares are included in the list of securities in which trading is permitted by a Stock Exchange, but also provide a valuable indirect check and safeguard against manipulations. Clause 20 provides that the Central Government should have the power to compel any public company as defined in the Indian Companies Act to have its shares, bonds, debentures and other marketable securities to be admitted to dealings on a recognised Stock Exchange by requiring it to fulfil any conditions that may be prescribed in this behalf by the Stock Exchange concerned.

In clause 21, a right of appeal is conferred on any public company which has been refused a quotation of shares, bonds, debentures etc, by a recognised Stock Exchange. Clause 26 of the Bill provides that it shall be lawful for the registered shareholders of a security to retain any dividend payable thereon and any bonus or other rights unless the person to whom he sold the security gets it registered in his own name, within a reasonable period from the date on which the dividend becomes payable. This, one hopes, will be a useful indirect curb on improper transfers of shares, particularly on blanks and will assist us in controlling the lists resulting from such transfers which we have worked out the details of the positive measures which we have in view.

Hon. Members will notice that what we have thus attempted to provide in the Bill in a general system and apparatus of control, without detailed or meticulous regulatory provisions relating to any specific matters. In particular, we have not proposed to make any statutory provisions for those reforms in Stock Exchange trading methods and practices which have been the subject of so much controversy in the past and still continue to be the source of argument and debate. As power is taken in the proposed legislation to make or direct the making of suitable bye-laws to deal with them, as soon as conditions necessary for their introduction and enforcement have been created, detailed regulations on these subjects have been deliberately left over to be made at a later stage, in the light of the administrative and institutional changes which would be needed to deal effectively with the problems connected with them. The more important of these issues relate, among others, to blank transfers, *budlas* or carry over facilities, the enforcement of 'margins' and the establishment of clearing houses and they have been explained in the technical notes that I have referred to and which have been circulated to hon. Members. It is true that both the Atlay and the Morrison Committees in the nineteen-twenties and thirties made many recommendations as to the rules and bye-laws of the Bombay Stock Exchange relating to these matters, but all these recommendations were contingent on the adoption of other measures which were simultaneously recommended by them. Since these other measures were not adopted, necessarily, the recommendations made by these Committees could not be implemented. The findings of the various official and informal committees which went into this subject in recent years were also similar. This shows the basic difficulty of making any major changes in the existing methods and practices in the Stock Exchanges, until the preconditions necessary for the successful implementation of these recommendations have been created. The broad philosophy underlying the scheme of the present Bill is that the problems of Stock Exchange trading policy and practices cannot be effectively dealt with until a common framework regulating and standardising Stock Exchange practices all over India has been provided by Central legislation, and till the relevant statute has conferred the requisite powers on Government, to enforce the conditions necessary for the successful working of the operative bye-laws. It will be one of the first tasks of the department entrusted with the responsibility for the administration of this measure to initiate such organisational changes in the set-up of the existing Stock Exchanges and to promote those institutional developments relating to their working as constitute the essential pre-requisite to the introduction of these basic reforms in the trading practices which have often been agitated in the past but on which some further detailed constructive work, I am afraid, yet remains to be done. I can assure hon. Members that these preliminary steps are very much in my mind and I propose to initiate informal discussions between the representatives of the Stock Exchanges and my departmental officers in the very near future.

I shall now say a word about the administrative set-up which we propose for the working of the Stock Exchange legislation. As many hon. Members are aware, the Gorwalla Committee recommended the creation of a Stock Exchange Commission, a recommendation to which strong objection was taken not only by all the Stock Exchanges in this country but by most of the leading chambers of commerce and other trade associations. The fear was expressed that the creation or a top-heavy organisation like the one recommended by that Committee would destroy the internal autonomy of the Exchanges and weaken the system of control envisaged in the Bill by the dispersal of authority and responsibility over multiple agencies, that is to say, the Central Government, the Stock Exchange Commission and the State Governments. The Government recognised that there is force in this contention and that much the better course would be to strengthen and streamline the existing departmental organisations which we have already, instead of adding new structures outside them which would not only complicate the problems of administrative co-ordination and responsibility but will also make such calls on our very limited supply of specialised man-power as we know by experience we shall be unable to meet. I, therefore, propose to reinforce the new Department of Company Law Administration in the Ministry of Finance which has been entrusted with responsibility for matters relating to Stock Exchanges and to set up a special directorate in it, consisting of a nucleus of people with specialised knowledge of Stock Exchange methods and practices. It is my intention in due course to associate with this Department a standing advisory council consisting of representatives of principal stock exchanges of trade and industry and of those institutions which are closely connected with the working of joint stock companies, the stock exchanges and the money market. If necessary, at a later stage, we may also consider the desirability of associating with the stock exchanges also suitably constituted local advisory councils. I trust the administrative organisation which I have in mind will go far to dispel the fears and suspicion which were expressed strongly sometime ago about the proposed organisation being too top-heavy or overweighted.

Sir, I think I have said enough to indicate the broad lines on which the present Bill has been conceived and the objects which it seeks to achieve. The present seems to be an opportune moment; indeed the time seems to be ripe for it—for considering a legislation of the type I have outlined for the reform of the stock exchanges on an all-India basis. The recent passing into law of the comprehensive Companies Bill is expected to introduce far-reaching changes in the structure and working of joint stock companies in this country and over the years to standardise company management in a large segment of the organised private sector. The reform of our stock exchange law will be an essential complementary measure which in its turn will further help to standardise the behaviour and pattern of the private sector. It is my hope that in the fullness of time we will succeed in building up an administrative set-up strong and competent enough to discharge with understanding, wisdom and vigour the new duties and responsibilities entrusted to it. The two measures between them will go far to create those basic conditions on which alone, I venture to think, the edifice of a sound and revitalised private sector can be built up duly informed with the assumptions and postulates of our socio-economic policy, such as will enable it to play its dynamic role in the future pattern of society which we have chosen to adopt.

Mr. Deputy-Speaker: Motion moved:

"That the Bill to prevent undesirable transactions in securities by regulating the business of dealing therein, by prohibiting options and by providing for certain other matters connected therewith, be referred to a Joint Committee of the Houses consisting of 45 members, 30 from this House, namely:

Shri Chimanlal Chakubhai Shah, Shri Bhawanji A. Khimji, Shri Kushi Ram Sharma, Dr. Jayantilal Narbheram Parekh, Shri Shivram Rango Nane, Shri S. S. Natarajan, Shri C. P. Matthen, Shri C. R. Basappa, Shri R. P. Navatia, Shri Radhelal Vyas, Shri Bhupendra Nath Misra, Swami Ramanand Shastri, Shri Sarju Prasad Misra, Choudhury Raghubir Singh, Shri Krishnacharya Joshi, Shri B. R. Bhagat, Shri Banarsi Prasad Jhunjhunwala, Shri Jaganath Kolay, Shri Lokenath Mishra, Shri Tek Chand, Shri Ghamandi Lal Bansal, Shri Radheshyam Ramkumar Morarka, Shri U. M. Trivedi, Shri Tulsidas Kilachand, Shri M. S. Gurupadaswamy, Shri Jaswantraj Mehta, Shri Narayana Rao Waghmare, Shri Kamal Kumar Basu, Shri T. B. Vittal Rao, and the Mover, and 15 members from Rajya Sabha;

that in order to constitute a sitting of the Joint Committee the quorum shall be one-third of the total number of members of the Joint Committee;

that the Committee shall make a report to this House by the 15th February, 1956;

that in other respects the Rules of Procedure of this House relating to Parliamentary Committees will apply such variations and modifications as the Speaker may make; and

that this House recommends to Rajya Sabha that Rajya Sabha do join the said Joint Committee and communicate to this House the names of members to be appointed by Rajya Sabha to the Joint Committee."

I would like to inform the House that hon. Members who are not Members of the Joint Committee will be given priority. Of course, if there is still some time, I will call upon other hon. Members.

Shri V. P. Nayar: (Chirayinkil) Even after listening very intently to the speech of the hon. Mover, I think that some of us—and that some of us might include you also Sir,—still remain ignorant of what matters this Bill attempts to deal with. It is a very very difficult matter, I know, and the hon. Finace Minister has helped us by a note on some of the words which we are not familiar with. For example, when ordinarily a man comes and asks me what is a "mandi", I would only say that I know a mandi and that is the "subji mandi".

Shri C. D. Deshmukh: It is pronounced as "mandhi".

Shri V. P. Nayar: But it is written here as "mandi".

Mr. Deputy-Speaker: It is "mandi" as opposed to "teji".

Shri V. P. Nayar: Our difficulty is that it relates to certain matters with which we are not familar. I happen to have no personal knowledge about the operations of stock market nor do I expect even the Deputy-Speaker to have any such knowledge.

Mr. Deputy-Speaker: Order, order. I do not claim universal knowledge of all this, but I would urge upon hon. Members not to refer to the knowledge or otherwise of the Speaker or the Deputy-Speaker, because it is embarassing. It is not as if everybody knows everything in the world and some study will be necessary. If you do not know, say, "I do not know". I may or may not know, but it is wrong to refer to it. In future no reference shall be made either for or against the Speaker with respect to any matter in the House.

Shri V. P. Nayar: I beg your pardon if I have....

Mr. Deputy-Speaker: There is no harm in any hon. Member saying "I do not know"; then the hon. Minister will get up and say, "the hon. Member must have read this and that; or he must have gone to the stock market" and so on. But it is no good referring to the Speaker or the Deputy-Speaker or whoever may be in the Chair and saying "you yourself do not know". I know some of these things.

Shri V. P. Nayar: I am very sorry, if I have offended you, but....

Mr. Deputy-Speaker: This is only for the future guidance of hon. Members.

Shri V. P. Nayar: I shall have it for my future guidance and I shall [illegible] the Chairman is never again say tha[illegible] over we know ignorant. All the world [illegible] register a[illegible] that the stock markets [illegible] slightest buoyancy when there is the [illegible] war scare and we also know that this buoyancy just melts away, evaporates the moment they hear about any possibility of peace. But I do not think that as a country's barometer to gauge the effects either outside or inside, this is at all a useful institution. It is on the other hand a crude and shall I say a cruel mechanism of "mammon worship". Who are the members of the stock market? It is not the ordinary people who take a real interest in the stock market. It is a set of speculators. The word "speculator" is very carefully avoided by this Bill. I did not know the definition of the word "speculator" as it was applied in business and I was looking up the Oxford Dictionary. There, a speculator is defined as 'one who engages in buying and selling of commodities etc. in order to profit by a rise and fall in their market value,

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i.e. indulge in a risk for reaping excessive profit. This is the type of people who are associating themselves with the stock market. We are considering this Bill in an entirely different context now. I know that there has been a committee appointed by Government. When the hon. Minister was referring to it as comprising of various interests including the interests of share-holders, I asked him the question as to who represented the share-holders' interests and he referred me back to the report of the committee. I find in this Ministry of Finance's Resolution dated 23rd June, 1951 under which this committee was appointed a list of 10 persons beginning from Mr. A. D. Gorwala to the Secretary of the Finance Department. There is no indication in it from which we can find out who represented the interests of the share-holders.

Shri C. D. Deshmukh: I could not make a reference while I was speaking. It was Mr. Jagmohan Das J. Kapadia who was a very well-known figure and who was the Secretary for many years of the Bombay Share-holders' Association, to which we referred during the course of the discussion on the Companies Bill.

Shri V. P. Nayar: I was asking him whether it was Mr. J. J. Kapadia, because I did not know the full name. Our difficulty is this. I have read through the report of the Committee under Shri Gorwala. There are some cases in which this report gives us an idea of what operation in the stock market really means. I shall come to it later. In 1951, when the Government had considered the desirability or necessity of controlling the stock market in some way as they thought fit, a Committee under the Chairmanship of Shri Gorwala was appointed. Up to that moment, what the Government says is correct. What was the context in which the Gorwala Committee was appointed? I well remember that in 1952 and 1953 the hon. Mover was several times repeating the words mixed economy. It was a context when none of the Members opposite ever thought of or declared themselves as wedded to a socialistic pattern of society that the Gorwala Committee was appointed. The Committee has sent up a report. There is something very surprising. Committees are given a long time. Here, a committee was appointed and it was asked to meet in Bombay in a week, and they submit a report. It was entirely in different circumstances. Government had not at all thought of a socialistic pattern of society. I fail to understand the position of stock exchanges and their regulation in such a way then the Government, all their spokesmen, declare that they are wedded to the ushering in of a socialistic pattern of society. Are we to take it that by the control of stock exchanges in the manner which is envisaged in this present Bill that the Government are going to usher in an egalitarian society? I submit that this Bill does not at all deserve any consideration.

Stock markets, as we all know, are institutions of the monopolists, who always operate on the variations in the prices of securities, sometimes creating variations in the prices of securities, and always by such variations affecting the lives of hundreds of thousands of our producers. We know for certain that stock exchanges are used as straw by these monopolists to suck the life blood of our peasants and our producers. That is the institution which the Government, today, at the end of 1955, long after declaring themselves in favour of a socialistic pattern of society, come and tell us, is an institution which has to be regulated. Stock exchanges have to be regulated inside, outside and God knows where else. This is a very very strange matter. I do not find there is any justification at all for the continuance of stock markets in any way if,—and that is a big if—the Government are really wedded to the ushering in of a socialistic pattern of society. I cannot reconcile myself to this attitude because I do not believe that a socialistic pattern of society is the result of certain regulations of stock markets where all the financial sharks operate. They say that there is a bullish tendency; there is a bearish tendency and all that. Very very true; so long as they are there, this is very natural.

I was trying to understand the position better and I found that there was a very remarkable passage in the publication of the Reserve Bank of India which gives us an idea of how the utterances of whispers of a Finance Minister would react in the stock markets, especially in the matter of securities. Here is the passage and I request you to bear with me for a minute. This gives a clear indication of how the stock market reacts.

Mr. Deputy-Speaker: He may read a passage, but not a whole statement.

Shri V. P. Nayar: Two or three sentences. This is from the Reserve Bank's report for October, 1955, page 1065:

> "On the Bombay stock exchange, the bearish tendency in industrials noticed towards the close of August continued during the earlier part of September. This reflected mainly the market's reaction to the proceedings of the All-India Congress Committee at its session held at New Delhi early in September...."

I do not want to read the whole passage as you have directed. Here is a passage where we have a particular reference to the Finance Minister:

> "The downward trend was arrested from the 9th and a steadier tone emerged on a revival of support at the lower levels, aided by reports (since officially denied on the 17th) of a statement made by the Finance Minister, at a meeting of the Planning Committee of the Congress Parliamentary Party held on September 15, that there was no likelihood of the tax burden being increased....etc."

A whisper of the Finance Minister or a statement here by a Parliamentary secretary or some article contributed by the Deputy Minister of Finance is able to make its repercussions felt on the stock markets and they act instantly. It may be bullish or bearish; I do not know which is which. But, the fact remains that such declarations have always been felt by the stock exchanges because they happen to be controlled by a set of people to whom such matters are very important. They have to spread their tentacles throughout the country. These stock exchanges function as the most sensitive of the sensory organs of the monopoly capitalists of India as you find in every capitalist country.

Let us look at the observations made by the special committee. That also gives us an indication of what speculation means. I am referring to the report of Shri Gorwalla where he says,—I am quoting from the first page of the report which gives us an idea of why these undesirable transactions are to be prohibited. Is thre any desirable speculation? That is the simple question which I want the Finance Minister to answer.

Shri C. D. Deshmukh: Yes.

Shri V. P. Nayar: It is very good that there are. We cannot subscribe to that view so long as speculation is there. So long as on that speculation depend the lives of several hundreds of thousands of our people who produce, we do not consider that speculation....

Shri C. D. Deshmukh: Speculation means intelligent or unintelligent anticipation.

Shri V. P. Nayar: Of the sharks. The Oxford Dictionary defines it in another way. It says that if I get excessive profits in view of taking risk, that is speculation in monetary

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transactions. That is the ordinary meaning in which we have taken it. Now, the Gorwala Committee says:

"There are those who buy shares to invest or sell shares for ready cash. It is the interests of these that must be kept constantly mind...."

Not the interests of you and me or the people—I am sorry—interests of the people who sell or buy shares for specific reasons:

".....since it is for them primarily that the stock exchange exists."

As correct as I stated.

"There are also those who buy in the hope to sell at a profit or sell in the hope to buy at a profit."

All this is very difficult for us to understand. The Gorwala Committee says:

"In popular language, they are speculators as ditinguished from genuine investors, though the two groups of course are by no means mutually exclusive; for, by way of an example, a man who has bought to invest may later persuade himself to sell to make a profit. Nevertheless, the existence of a body of speculators is one of the main features of almost all the stock exchanges with which we are concerned."

If the hon. Finance Minister's case is that when we are having a very ambitious Five Year Plan, with the prospect of enlarging our public sector when the Government proclaims from all places through all its spokesmen that we are shortly to have a socialistic pattern of society, if this speculation is to be allowed and given the force of law, then, I have no more comments to make.

Mr. Deputy-Speaker: He started by saying that mere investment by persons who have got some surplus money alone is not enough for the private sector. He said that this is no good and speculation is necessary. Excessive speculation has to be prevented. That is the object of the Bill. Otherwise, if the Bill is thrown out, even this curtailment will not be there.

Shri V. P. Nayar: I am coming to that. I am giving other suggestions for that.

It reminds me of a parallel. The hon. Minister says that it is desirable. In so far as the acts of thieves and robbers are concerned, there is also a good aspect. A thief does not ordinarily come to my house because he knows that he has first to put something in the house so that he can later on have satisfaction that he has stolen. There is nothing left. He goes to a rich man's house and takes away something. In fact, a portion of that goes to other people. Are we prepared....

Mr. Deputy-Speaker: If thieving is done on a large scale and useful in part to the community, I think that also will be regulated.

Shri V. P. Nayar: If you will bear with me, I will be able to show....

Mr. Deputy-Speaker: The English language is sufficiently rich. Any kind of analogy can be drawn. We are in practical politics.

Shri V. P. Nayar: I am coming to the practical aspect. I never said thieving is good or robbery is good. I said there could be an interpretation, there could be a thought that a particular act in thieving is good. Thieves do not happen to be the majority in India but thieves who take what the rich possess and distribute it among the poor may be considered to do a little bit of service in at least levelling down. Are we prepared to amend the Penal Code in sections 379 and 380 and say that hereafter thieving is considered to be advantageous in a certain measure? Therefore, there shall be a licence to thieve at night but not during day time. That is regulation of thieving, is that not so?

Suppose a robber is told: "Robbery is sometimes good, because you go to the house of rich and distribute what they have got to the poor, but please note that the law prevents you from robbing from morning till dusk." Then, robbery is regulated. Is that good?

This speculation in Stock Market is robbery of a worse kind. The operations in the stock market are not merely robbery, but something more. It is making the entire people suffer on speculative prices, on the varying prices of securities, and you do not find in the stock markets people who do only stock market business. There are all these industrial combines and financial barons. They are all entrenched in every stock market and there is a vertical monopoly and there is a horizontal monopoly, and the stock market always is an appendage or tentacle to make more profit. This is a fact.

If the hon. Finance Minister gets up and says: "Look here, if we do not have this legislation, they will have no control. If we do not at least control them in this way, then what is the fate?", then my answer will be different. We must wipe out these nefarious deals on the stock markets, and for this purpose at the earliest possible time take an opportunity to completely liquidate these stock markets which are so very harmful to the country's interests, provided—and that provided is also very important—we have an eye to march forward to a socialistic pattern of society.

It is not a very simple matter. If I am given this Bill and then asked: "will you have this because it contains at least certain restrictive provisions and gives Government certain powers?", then I will say: "If it is not possible for me to get anything at all, I might try to discuss it in the Select Committee." That is a different matter. But in this context, my submission is that there is no purpose served if we are controlling these stock markets by a regulation here restricting their internal autonomy or a regulation there by imposing certain restrictions on futures.

From the memorandum on delegated legislation you will find....

Shri C. D. Deshmukh: I would like to ask a question of the hon. Member, whether he has read this technical note on stock exchanges, their conventions and practices. No use showing it to me. Has the hon. Member read it?

Shri V. P. Nayar: I have, I have read and understood the English of it, but I have not understood the technicalities of it because, as you will appreciate, it is not a matter in which a man can be an expert. That is why I said I share my ignorance with so many other Members here.

Mr. Deputy-Speaker: What is the object of speaking then? What is the hon. Member contributing?

Shri V. P. Nayar: We are not having a clause by clause discussion. We are having a general discussion.

Mr. Deputy-Speaker: If he is not able to understand what exactly is meant, the technical terms and expressions and how it works, and knows only the English of it, I think I will ask other hon. Members who know something about the subject to speak. After all, three hours ought not to be the monopoly of any hon. Member....

Shri V. P. Nayar: I do not want to monopolise.

Mr. Deputy-Speaker: Who cannot contribute anything.

Shri V. P. Nayar: I have certain doubts.

Mr. Deputy-Speaker: It is one thing to say that there should be no kind of speculation....

Shri V. P. Nayar: My only object is that whatever be the restrictions imposed on the speculative trade or speculation in the prices of securities, unless they are completely done away with....

Mr. Deputy-Speaker: That is a different matter.

Shri V. P. Nayar: And in that context, we do not require this Bill but we require a different Bill.

Then, in this Bill as I have been able to find, the object set forth by the Mover is only to give a shape to the basic concepts as you see them in the Gorwala Committee Report. The ideas of the Gorwala Committee Report have been borrowed or have been taken and put in proper shape in these clauses.

There is also another reference to the United Kingdom Act of 1939, apart from the Gorwala Committee Report, whose provisions are broadly followed in this Bill. We must remember that this United Kingdom Act was not brought forward with the concept of an egalitarian society at all. It is an Act of 1939 and we know what the economy of Britain in 1939 was, even today is. Even in that Act the offender is punished with an imprisonment for two years and a fine of £500, while, on the other hand, my friend Shri Deshmukh finds it convenient only to prescribe punishment for one year without any stipulation about fine. Is that not correct? The U.K. Act reads: "to imprisonment for a term not exceeding two years or to find not exceeding £500"—that is the punishment for any infringement of that Act. while we on the morning of a socialistic pattern of society say that these offenders shall be punished with only one year without any monetary commitments.

There is also this aspect. It is very clearly stated in the Gorwala Committee report:

"The man who has both knowledge and money but seeks to manoeuvre the market, instead of confining himself to the legitimate function of speculation is a menace to the market, the investor and the public at large. The man who has neither money nor knowledge, but still speculates is not only a menace but also a misfit. He ought never to have speculated.

Speculation, then, has a place in the organised marketing of shares...."

I fail to understand the ligic of it. In the context in which we are living today....

Shri C. D. Deshmukh: In clause 22 there is fine also. Imprisonment is one year.

Shri V. P. Nayar: We cannot go into such details in the general discussion.

Mr. Deputy-Speaker: The hon. Member was saying there was no monetary stipulation. There is imprisonment or fine or both.

Shri V. P. Nayar: Is that any stipulation? It may be one rupee, it may be two rupees. Even in the U.K. Act which was brought forward in the year 1939 there is a provision for two years imprisonment and a fine of £500. In 1955—I am sorry I have to repeat it—many months after the Congress Government have declared themselves in favour of a socialistic pattern of society, this is what we are doing. And who are the offenders? It is not the common people who infringe the law in securities. They are all very studied people, they are all sharks waiting to have their prey and trying to monopolise the market in order to swell their profits, spreading out their tentacles from their monopolistic position into all branches of our economy. Of such people why should we take a lenient view?

Shri C. D. Deshmukh: Will the hon. Member read the U.K. section?

Shri V. P. Nayar:

> "Any person who contravenes this section shall be liable, on conviction on indictment, to imprisonment for a term not exceeding two years or to a fine not exceeding five hundred pounds".

Shri C. D. Deshmukh: So, what is the hon. Member's complaint? "Not exceeding" puts a ceiling on the fine, whereas if we say "fine", is unlimited fine.

Shri V. P. Nayar: But what is the power of the court to fine? Has the hon. Minister any idea?

Shri C. D. Deshmukh: It depends on the court before which it goes.

Shri V. P. Nayar: It is fortunate that Mr. Deshmukh did not practise law! Does he know that the courts can impose fines only consistent with certain provisions of the Criminal Procedure Code? That was not my main objecttion.

Mr. Deputy-Speaker: I thought there was a restriction on the powers of imprisonment. Is there restriction on fine also?

Shri V. P. Nayar: Oh Yes. I am, in fact, touching that point.

Pandit Thakur Das Bhargava: On the amount of fine to be imposed, there is a restriction in respect of certain classes of magistrates.

Shri V. P. Nayar: There is. Even that was not my point. There is a restriction. A magistrate of the third class cannot impose a fine of Rs. 1½ lakhs. The point is not that. Even if you fine Rs. 100,000 they will pay the next day as you found recently in the case of a big man for an ordinary bail in a magistrate's court people were there to offer Rs. 2 crores as security, but that is not the point. Even in the matter of imprisonment, when the U.K. Act prescribes for an offence under it an imprisonment extending to a period up to two years, we find that our Bill in 1955 prescribes only a year, which is fantastic nonsense, if nothing else.

In conclusion, I would particularly like to draw your attention to certain observation made in an article entitled 'The Regulation of Stock Exchanges' in the *Eastern Economist*. The views expressed in that article are not my views, nor are they the views of any of the Members sitting on this side of the House; they are probably the views of gentlemen like Shri Tulsidas or some other big businessman, whom the paper represents. In regard to this Bill, this is what the *Eastern Economist* says:

> "The Bill leaves an escape way which can be employed successfully to thwart the jurisdiction of the stock exchanges. For example, clause 2 defines 'spot delivery contract'....".

It may be that this is only a particular point of view. But the fact remains that here is an example of that point of view. So, it is not merely that we on this side of the House object to it on the ground that it is very much lenient and it does not contain any drastic provisions to curtail the activities which result in a few people taking away all the cream of the profit, but even the capitalists oppose this Bill. The article I have referred to is an interesting one, but I do not want to go into it in any great detail.

My point in participating in this general discussion is only to bring to the notice of the Members of this House certain aspects of the operation of stock exchanges. In this context, when as the hon. Finance Minister himself has been saying at several places, the object of Government seems to be to bring in a socialistic pattern of society....

Mr. Deputy-Speaker: The hon. Member is repeating. He may conclude now.

Shri V. P. Nayar: I am concluding. I shall wind up my speech by putting a simple question to the hon. Finance Minister, namely whether it is through measures like this for regulating the stock exchanges, where there are no such regulations, or by imposing a few regulations on the periphery of the operation of stock exchanges, that the hon. Finance Minister or his Government propose to give us a socialistic order in the near future?

Mr. Deputy-Speaker: I find that there are no other Members who want to speak.

Shri Morarka (Ganganagar—Jhunjhunu): May I speak now? I did not want to speak earlier, because I am a Member of the Joint Committee.

Mr. Deputy-Speaker: Let me exhaust the other hon. Members first.... Since there are no others who want to speak, the hon. Member Shri Morarka may speak now.

Shri V. P. Nayar: That is why I took the liberty of speaking at some length.

Shri Morarka: I have listened with great care and attention to the speech made by Shri V. P. Nayar. When he began by saying that he did not understand anything of this Bill because it was very technical, I did not take him seriously, but as he proceeded with his speech, I found that I could entirely agree with what he said at the beginning. For even a person like Shri V. P. Nayar, who is so intelligent and who studies every aspect in such great details to come forward and say on the floor of the House that speculation is not necessary, that it should be banned and that it is in the interests of an egalitarian society that there should be no speculation or that there should no stock exchanges at all is, I think, the limit of the ignorance of a man.

Speculation, in the words of a very ernment economist, is nothing but a struggle of intelligence against chances. So far as stock exchanges are concerned, they mainly deal with the shares and bonds of joint stock companies and Government securities. The main thing that is very necessary even from the point of view of a small investor is the continuity of the prices and the liquidity *i.e.* easy marketability of the asset. If the assets or securities are not liquid, which means that they are not readily marketable, then the number of investors in those securities would be very small. And if the investors are few, then naturally the investment market or the corporate sector would not prosper properly in the country.

Now, the persons who do not actually have the shares to deliver, or those who do not actually intend to invest money and take delivery of the shares, are the persons who are called speculators. That is to say, they are the persons who neither have the goods to deliver on the due date of delivery, nor the intention actually to invest money by taking delivery of the shares. At the same time, these are the persons who are prepared to take the risk of the price flactuation. They make an intelligent anticipation of the future. They anticipate what is going to happen, whether the prices of particular securities are going to rise or they are going to fall and so on, and in the light of those anticipations, they make their purchases or sales. They carry on these purchases or sales over a period of time, as long as they think that the time has not come either to buy or to sell or to square the transactions. It is these people who carry on the business on the stock exchanges. So, the total volume of business in any security which is quoted on the market is several times the actual number of shares.

I shall make my point clear by giving a concrete example. If in a company A, the total number of shares is only 500, and if the investors in those shares only are allowed to deal, then at the most only 500 investors can be there, who can buy or sell; that would mean that the market in such securities would be fairly limited. If on the other hand *badla* transactions or some other such kind of transactions are allowed, then one person alone can buy 500 shares, or 1000 shares or 2000 shares or as many shares as he likes, and then on the day of settlement, he can either carry over, or settle by squaring the transaction by paying or reviving, the price difference, as the case may be. This type of speculation has great advantages. The main advantage is this. If at the stock exchanges the prices are quoted, the banks and other financial agencies who finance the purchase or sale of these shares even in the case of the genuine investors know about the investment position; they know what the prices of the securities in which the banks have invested their money are; they know that the securities are readily marketable, that is they can be easily purchased or sold at moment's notice on the stock exchange. If there are no speculators, and the market is to be confined only to the genuine investors, then it may be difficult at a certain time either to find a purchaser for a seller or a seller for a purchaser, and even if we do find, there may be a great price difference, and the purchaser may want to buy the shares from the seller at a ridiculously low price and *vice versa*. Therefore, in any society or in any stock exchange, which is well-conducted and well-regulated, the existence of this type of speculators who are intelligent speculators and not gamblers is a desirable necessity.

Another point which Shri V. P. Nayar made was that after all, the persons who operate on the stock exchanges are sharks, monopolists, this, that and the other. I cannot understand this argument of Shri V. P. Nayar at all, because it does not make any difference at all to the function of the stock exchanges...

Shri V. P. Nayar: The fact that you do not operate shows that.

Shri Morarka:...... as to who speculates or who deals on the stock exchanges. The main function of the stock exchanges is to provide a well regulated and properly conducted market for the Government securities as well as the shares of the joint stock companies. As long as that purpose is served, as long as investors are provided with a certain forum on which they can readily sell their investment or buy shares when they want to invest money, as long as that purpose is achieved, it does not matter who operates on the stock exchanges. Whether the person is a monopolist or somebody else makes no difference. By monopolist is meant a person who controlls almost all the industrial concerns producing a particular product, *i.e.* he monopolises a particular product or products. But at the stock exchange, he operates, if he is a broker, like any other broker directly, and, if he is not a broker, indirectly; and he can buy whatever shares he likes or sell whatever shares he likes in the same way as any other person can do. That means that if he is interested in a particular company and he wants to corner all the shares of that company, naturally he can do it. But then he has to face the consequences. The same thing can happen in every forward market also, in cotton, in bullion or in other commodities; there are persons who deal in certain commodities exclusively and do the cornering. But then they have to take the consequences of such cornering.

The third point made by Shri V. P. Nayar was this.

Mr. Deputy-Speaker: In short, is it the hon. Member's point that he does not want any stock exchange operations except for *bona fide* purchase and investment?

Shri Morarka: If that is done, then the operations in the market would be so narrow and so limited that the genuine investors would suffer in the long run, because they would not be able to find genuine purchasers for their investment or sellers when they want to invest, and even if they find, the price difference would be so big

[Shri Morarka]

that ultimately they would be the persons who would suffer.

Shri V. P. Nayar: If I may interrupt the hon. Member, is there any provision in the present measure by which a person who wants to take a risk and who is competent to corner will be prevented from doing so? If that is there, then I am with you.

Shri Morarka: So far as I can see, the competency of a person to buy shares or sell shares on a stock exchange depends upon the bye-laws of the exchange. If such a cornering takes place, then Government are always there to check those unhealthy tendencies, and they can always compel the stock exchange to amend the bye-laws, or if necessary they can even declare a state of emergency. So there are enough powers in the hands of the Government to meet such a situation.

3 P.M.

Then he said that even the speeches or utterances of the Finance Minister or articles of the Deputy Finance Minister have the effect of depressing or elating the Stock Exchanges. That is exactly the purpose of the speeches by the Finance Minister. The financial apparatus of the country is supposed to react to the speeches of the Finance Minister. That only shows how perfect the economic apparatus is. If the Finance Minister makes a speech and if the financial markets do not react to it, I do not know the purpose for which the speech is made; and if the Finance Minister corrects a report of his speech and if that correction is taken as a good sign by the Stock Exchange, I think that is the purpose for which the correction is made.

Lastly I should say that while gambling is undesirable and should not be encouraged in the Stock Exchange, genuine type of speculation is necessary. It may be encouraged and provision should be made in the Bill to that effect. The only other thing I would like the Select Committee to consider is that the applicability of this Bill, which is recommended by the Gorwala Committee and everybody else, should be on an all-India basis. Clause 13 of the Bill says that the provisions of this Bill would apply only to such areas which are declared by notification by Government. I think that unless the Bill is made applicable throughout the country, the purpose of the Bill would not be fully served, because anybody who wants to circumvent the provisions of the Bill can cross the boundary line and enter into any transaction there. The 1925 Bombay Act which is going to be repealed by this, I think, applied to the whole of Bombay State and it did not apply only to the Bombay Stock Exchange or any specified area. I hope the Finance Minister would take this point into consideration and if he finds it desirable he may make necessary amendments.

Shri V. P. Nayar: He is on the Select Committee. He can say it there.

Shri Mohiuddin (Hyderabad City): The Securities Contracts (Regulation) Bill has come before this House after considerable delay, and I am glad that after all, it will be placed on the Statute Book and the Stock Exchanges in India will be controlled.

Stock Exchanges—especially the Bombay Stock Exchange—have been the subject of investigation by a number of Committees: The Atlay Committee in 1920s' and the Morrison Committee in 1930s' are important, but in so far as any effective action against them was concerned, it was taken only in the Bombay Presidency, and Stock Exchanges in other parts of the country have remained absolutely independent and uncontrolled.

The need for control is obvious because from time to time we have seen that the speculation, especially in Bombay, has degenerated into gambling. The Morrison Committee in their report had said that of the total business transacted on the Bombay Stock Exchange, too high—indeed, much too high—a proportion is of a speculative nature, and their estimate was about 80 to 90 per cent. and of this speculative business, a very high proportion degenerated into mere gambling, thus constituting an ever-present danger to the continued existence of the bazar as a serious place of business capable of discharging with efficiency its proper function as an important and essential part of the economic machinery of the country.

This characteristic of the Stock Exchange is inherent in the transactions themselves and they have to be controlled in such a way that while keeping the useful aspects of speculation, the gambling side of it should be suppressed as strictly as possible. In this respect, I would also invite the attention of the Finance Minister to the other aspect, that gambling or speculation has its origin not only in the Stock Exchange itself, but is traced to the companies whose shares are traded on the Stock Exchange. It has been mentioned from time to time that the directors and the managing agents of the companies who have inside information about the future of the company take undue advantage of their confidential position and speculate on their own account on the Stock Exchange so that they may make profits which are really not due to them.

[PANDIT THAKUR DAS BHARGAVA *in the Chair*]

I hope that now with the new Companies Act that we have passed and which will come into force shortly it will be possible to control to a certain extent this aspect of the evil emanating from the side of the companies themselves.

My first impression after reading the Bill which was introduced about, I think, two years ago was that this is an assurance to the private sector in India that they can play their due part in the development of industries and business in the country. The Bill is very comprehensive and it provides so many safeguards. The Bill provides that Stock Exchanges will be recognised by Government, and before recognition, Government will see that the necessary rules and bye-laws which provide that the conditions laid down by Government are fulfilled and suitably framed. Government have also got the right under this Bill to approve the bye-laws that may subsequently be framed by the Stock Exchanges. Similarly, the rules are also subject to their approval. The Central Government have authority to supersede the Governing Body of the Stock Exchange. In addition to all these powers which are very comprehensive, Government also propose to take the power to ask the Stock Exchanges to make rules as they want and also direct them to make bye-laws as they wish them to make.

Now, these are all, of course, reserve powers. My question is: is it necessary that all these reserve powers should be kept in the hands of the Government? I do agree that powers in regard to recognition and approval of the rules and the bye-laws, supersession of a Stock Exchange or withdrawal of recognition of a Stock Exchange are necessary and essential. I hope the Joint Committee will consider whether in addition to all these powers it is still necessary that the Government should have further powers to impose on the stock exchanges their wishes in respect of a change or addition to the rules or bylaws. I am sure that with the full authority already vested by the other clauses in the Government it will be desirable to drop the proposals which vest the Government with the authority to impose rules and byelaws on the stock exchanges. If the stock exchanges are really to function as independent and autonomous bodies, I think we should have confidence in the members and the governing body of these stock exchanges and leave them free to operate within reasonable limits; it will be for the good of the clients and for the good of the country. But reservation of such vast powers by Government go to show that the Government do

[Shri Mohiuddin]

not have that measure of confidence the stock exchanges deserve in this respect.

The Gorwalla Committee was appointed to recommend measures for the enactment of this law. Their report is very valuable in many respects but unfortunately they entered into an unnecessary and long controversy about blank transfers. I do not think that blank transfer is so important as to deserve such a long controversy about its validity and usefulness. The President of the Bombay Stock Exchange has given a note of dissent showing the utility of the blank transfers while the other members recommended that the blank transfers should either be abolished or their life should be limited to six months or one year. The Bill only provides that the stock exchanges can make byelaws regarding the prohibition or limitation of blank transfers.

These blank transfers have become, as far as I can see, an integral part of the business and of banking in India. I could lay my hand only on some old figures of advance by scheduled banks against the shares of companies in 1946. Mr. Thomas has mentioned that the scheduled banks gave an advance of about Rs. 49 crores against the shares of various companies—approved shares—in India. All these advances are against blank transfers. No bank insists that the shares deposited with the bank as security should be transferred to its name. The banks only take blank transfers deeds from the borrower about the shares which are deposited in the company and I hope that in dealing with these blank transfers the Joint Committee will see that a useful instrument of advances that has been evolved in India over a long period of time does not receive a check which may ultimately hamper the business in the country.

Another important thing to which I would invite your attention is that in the stock exchanges—at least the Bombay Stock Exchange—there are only brokers and not jobbers. In a contract they are free either to act as agents in one case and as principals in another. The client who deals with them does not know whether the shares he has bought through a broker are through an agent or a principal. Experts and others have recommended that the broker's relationship to customers should be defined and enforced by the exchanges. As far as this aspect is concerned, the Bill is very vague. Somewhere mention has been made of the relationship but only as an incidental matter and not as a principal matter. I hope that this important aspect will be very clearly brought out in the Bill so that the brokers and the clients may know where they stand.

The other aspect has been very clearly mentioned in the Bill—the periodical examination of the books of the members to see that they are in a sound financial position to carry out the business with which they have been entrusted. I hope this important provision will have sufficient support from all Members of the House so that the future working of the stock exchanges based on these two important considerations is on sound and healthy lines.

Shri C. D. Deshmukh: So far as the hon. Member opposite is concerned, I fear that this is a case of love's labour lost. We spent a great deal of time in bringing out the technical implications of the Bill. We also attached a glossary of technical terms and we hoped that we had succeeded in making clear—although not necessarily removing all the differences of opinion—the functions which the stock exchanges and investment and forward markets are supposed to serve. I ask the hon. Member specifically whether he had read the technical note—I mean the first two paragraphs of it where we had tried to explain these basic matters.

Now my difficulty is that I can only answer the observations that he has made in those very terms; I have no other language in which to enlighten him.

Shri V. P. Nayar: Ask any Member whether he has understood anything of it.

Shri C. D. Deshmukh: Since no other Member has spoken except two Members....

Shri V. P. Nayar: Ask your Deputy Minister.

Shri C. D. Deshmukh: Except two Members, who did understand it, I have no other guidance in this matter. I am only pleading my own inability to answer those particular points of arguments if arguments they are. Towards the end of his speech he asked a question. He asked whether we thought that this was in accordance with the socialistic pattern of society that we were seeking to evolve. Here again, I do not understand the implication of the question because, what we said is that we are evolving or trying to evolve a socialistic pattern which is quite different from saying that we wish to instal immediately a complete and comprehensive socialistic pattern of society.

I would draw attention to the pronouncements on economic policy that have been made from time to time on behalf of the Government of India in which we have said that we believe that the private sector has a purpose to serve and a mission to fulfil in our efforts to secure the economic development of the country. Now, as long as that private sector exists, as long as corporations exist, as long as companies exist, there are joint stocks, there are shares and there are Government bonds, and some mechanism will be required for the marketing of these things just as a mechanism is required for orderly marketing of other goods and commodities like bullion, or agricultural commodities like oilseeds, cotton and a number of other things. I can understand hon. Members having views as to whether a market should be purely a cash investment market or whether there is any proper place for forward transactions and, if there is a proper place for forward transactions, whether it should be allowed in bullion, in commodities or for the exchange of stocks and shares. These are all matters which can be thrashed out in the Joint Committee. They have been referred to in the various report. If the hon. Member will get hold of the First Report—I think that was of Dr. Thomas—he will find in the initial portions of it a discussion on this very issue: "should stock exchanges be abolished". As I said, the Joint Committee will no doubt go through this matter, but, in any case, I think everyone would agree that a market is necessary and in order to prevent abuse the regulation of that market is also necessary, through a Central legislation. This is the first time that this is being attempted.

So far, as far as I am aware, there has been legislation only in the Bombay State. There, under the Bombay Securities Contracts Control Act, stock exchanges in the Bombay State desiring to carry on forward transactions are required to obtain a licence from the Government to do so and if they are not licensed for a period exceeding 7 days then the transactions are declared void. So, in answer to a question asked by another hon. Member, Shri Morarka, I would say that this Act applies to the whole of the Bombay State and there is this provision for it. Now, whether we should have a similar provision or whether we should have a specific provision notifying certain areas or not are all matters of detail which could be gone into at the Joint Committee stage.

Therefore, so far as the observations of the hon. Member opposite are concerned I really have no further answer to give. I repeat that as long as there is a private sector there will be private investments. As long as there is private investment in stocks and shares there should be some provision for orderly marketing of these stocks and shares and therefore, there must be some Act of this kind and it will not do merely to say that all such institutions are for the exploitation of the masses.

Shri V. P. Nayar: In that case, may I ask the hon. Minister why, when the report was asked to be submitted within a month on the 23rd June, 1951 and when, as I find, the report was submitted in proper time, the Government have taken these 5 years to come forward with such a Bill? I put this question only if it is a 'must' as the hon. Minister put it.

Shri C. D. Deshmukh : There again I do not know whether the hon. Member listened carefully to what I said. I said that there were certain pre-requisites, as for instance the amendment of the Company Law. Actually the Expert Committee which went into the comprehensive amendment of the Company Law was appointed some time towards the end of October 1950. The Gorwala Committee was appointed some time in June, 1951. We received the report of this Expert Committee, I think, some time in 1952 or early 1953—I have not got the dates here just now—and we lost no time, I think, in preparing the Bill and bringing it forward before the legislature. The Bill was actually introduced by the end of 1953 and this Bill was introduced in 1954. So, I do not think there has been any delay in this matter.

Shri V. P. Nayar: The hon. Minister said that the Company Law had to be modified and therefore he was waiting all this time. Actually, the only reference to Company Law in clause 20 is with reference to the Company Law of 1913.

Shri C. D. Deshmukh : The hon. Member and I are talking at cross purposes. I am saying that the recommendations of these committees assumed that there would be an amendment of the Company Law and that the structure of the joint stock companies would be amended suitably, and this, as I said, is a supplementary measure. Obviously, the amendment of the Company Law had priority and it was for that reason that we had to wait for the introduction of this Bill till after the comprehensive Company Law Amendment Bill had been introduced.

The hon. Member has used analoges of thief and so on; that is to say, he has tried to establish an analogy between a thief and a speculator in the stock exchange. Here again, it is a very light-hearted way of dealing with a serious issue. Laws against theft and so on, of course, are related to our notions of property and I am glad to see that the hon. Member at least passed some indirect comments about property by trying to deprive the thief. So far as the speculator is concerned, as another speaker has pointed out, what he does is, he uses his own judgment his intelligence in anticipating the course of things and, what is more, he is prepared to back his judgment to the extent of his own resources.

Shri V. P. Nayar: So, the biggest speculators are the best intellects?

Shri C. D. Deshmukh: There is always a difference between an excess of anything and the thing itself. Speculation can also be overdone and when it is overdone it is indistinguishable from gambling. But, the point that we made was that if the investor was left to buy or sell securities in a market where there was no such anticipation, shall we say, by specially instructed or intelligent people, he probably would find that: (a) there was no continuity of prices, and (b) the range of variation was so wide that he is apt to get scared either by loss or tempted to sell his assets in the hope of making profits and then come to grief. That is why I think—and most committees that have gone into this matter have agreed including the committee of economists and other in the United Kingdom—that there is a proper place for speculation. like many other terms, speculation also can be defined in various ways. Our *Upnishads* were speculations—intellectual and spiritual speculations of the highest order. It has a different sense in which that is misused. Even in the language of the market-place, we are apt to say that the movement of prices in certain Stock Exchanges is highly speculative in character. There we have in mind a different of speculation than the sense in which we were using the word here. Here, speculation means really forward dealing, forming judgments in regard to the trend of prices based on various indices, utterances and other notable trends which, as to a skilful tracker in the jungles, are clearer to those people than to the amateur investor. In any case, this also is a matter which can be considered in the joint Committee. The principle of the Bill is that we should have some Central legislation for the regulation of Stock Exchanges.

Shri V. P. Nayar: May I seek one clarification? The hon. Minister says that all aspects of speculation have to be considered by the Joint Committee if I understood him correctly. From the report of the Gorwala Committee I find that the Committee was appointed on the 23rd June 1951, and asked to report within a month. The first meeting was fixed to take place at Bombay, by the Government's resolution, and after they were appointed, the meeting was held in Bombay. I went through the report of the Committee and could not find whether any study was made as to the impact of this speculation on the stock markets on the prices of agricultural Commodities or industrial raw material or industrial products. Unless the Joint Committee **know how** the speculative trade is carried on in stock market and how it will affect these factors, I am unable to see how the Joint Committee can give a considered opinion on this matter. I may be wrong.

Mr. Chairman: I have not been able to see any connection between the date on which the Committee was required to report and the question whether Stock Exchanges should be established or whether market prices are not established by speculation in stock Exchanges. Apart from this Bill, every book on Economics says that speculation is at least one of the factors for the stabilisation of prices.

Shri C. D. Deshmukh: There is no absolute connection between what is contained in one report and the range of discussion that might take place in the Joint Committee. The Joint Committee will have this as one of the documents before them. As I pointed out, this was the third or the fourth report on this particular matter, apart from the two reports in 1923 and 1926. Ever since the end of the war, this matter had been studied by the successive people.

Mr. Chairman: The general questions about Stock Exchanges and control of speculative gambling, forward contracts, options and the stabilisation of prices are known to everybody.

Shi C. D. Deshmukh: Either it is known to everybody or we expose ourselves to being asked questions in regard to these matters, and we shall endeavour to give answers to any difficulties that hon. Members may have. But the fact that this Committee was asked to report in a short period has really no bearing on the future character of discussions in the Joint Committee.

Shri V. P. Nayar: This was the latest report. I do not think, considering the position of Stock Exchange in 1923 and 1926 will at all be relevant to the present context and if at all there is any relevancy, it may be to this report. That is why I asked a question whether this Committee also studied the particular requirements to Indian conditions. As the Chair rightly observed, we happen to know what will be the effect. I do not think it will have an effect on stabilisation of prices. On the other hand, speculation in stock markets reflects on the speculation in prices and the more there is speculation the less will be the actual money which the producer gets. That is my view.

Mr. Chairman: Apart from this Committee's report, the Joint Committee will see dozens of reports and other papers in this respect. It will not base the findings only on what is contained in this report or that report. It is open to the Joint Committee to say that Stock Exchanges should not be established or such and such a Committee should be established or such and such restrictions if placed on the Stock Exchanges will be useful or otherwise. The whole field is open to the Joint Committee and it is not only this report that will be the subject-matter but others as well.

Shri V. P. Nayar: It is clearly stated in the Statement of Objects and Reasons that the present Bill is based on the study and analysis of that report. I could not find in the report that any study has been made on the points which I raised. If a study had been made by any other Governmental machinery later on, then of course, the Joint Committee can take advantage of that. In so far as this report is concerned, neither in that report nor in the speech of the hon. Minister nor in the Statement of Objects and Reasons is there any mention about it. I only wanted to have a clarification about it.

Mr. Chairman: The hon. Member knows the scope of inquiring the Joint Committee. The Joint Committee can take evidence, study matters which are contained not only in the report to which he referred but all reports and refer to any number of books and find out whether these provisions are good or are bad. The Joint Committee has got a wide scope.

Shri C. D. Deshmukh: The hon. Member is in a particularly questioning and inquiring state of mind. I really cannot satisfy his curiosity any further. I have tried my best to meet some of the difficulties which he felt in the way of this legislation.

As regards the other two hon. Members who have spoken, they have generally supported the principle of the Bill. I am glad that Shri Morarka has explained the purpose and meaning of speculation.

Shri V. P. Nayar: He knows that also.

Shri C. D. Deshmukh: But that is no objection of any kind at all. If any one speaks from knowledge, I think it is much better than speaking from the lack of it.

Shri V. P. Nayar: So, the thief is the best man to defend the thief!

Shri C. D. Deshmukh: I have already dealt with the question of delay which was incidentally referred to by the third Member, Shri Mohiuddin. He raised the point in regard to speculation and said that it is encouraged by the action of company directors themselves. That is partly covered by what we have done in regard to the Company Law, laying down the powers, duties and functions of directors and partly by what we shall be able to do in this Bill, as it emerges after examination by the Joint Committee. In general, the scheme of the Bill is to provide for the application of the screw wherever experience may prove it to be necessary. I am a believer in the slow and even tightening of screws and if experience shows that further tightening is required, then, I have no doubt that we shall have sufficient determination and ruthlessness to carry that process out in the public interest. An hon. Member asked why several reserve powers have been kept for the Government, and he drew the strange conclusion that these provisions show Government's lack of confidence in Stock Exchanges. I claim that having only reserve powers and not having very elaborate powers and detailed provisions shows, on the contrary, that Government has some confidence that if the Stock Exchanges are permitted to operate within their structural autonomies, they might yet make wise bye-laws and might run their business in a manner which is sound and wholesome. The existence of those reserve powers is as hedges are on the road, to ensure that erratic vehicles do not leave the road. Therefore, these provisions are in line with the general scheme of the Bill that we have brought forward.

The same hon. Member then made certain observations in regard to blank transfers and their utility in those bank advances and so on and so forth. These are matters which I have no doubt will provoke a great deal of discussion in the Joint Committee. The main element about blank transfers is of course the level of stamp duties. If stamp duties were to be more reasonable or less onerous, then, I feel sure that one could progress very much further on the road towards limiting or even abolishing blank transfers. It is because the public concern finds that the stamp duties on every occasion on which the transfer is made is high, that they try to avoid it by this device which, at the moment, is a legal one. There are one or two more points to which the hon. Member referred and I have no doubt that the Joint Committee will take notice of them. With these observations, I commend my motion.

Mr. Chairman: The question is:

"That the Bill to prevent undesirable transactions in securities by regulating the business of dealing therein, by prohibiting options and by providing for certain other matters connected therewith, be referred to a Joint Committee of the Houses consisting of 45 members, 30 from this House, namely:

Shri Chimanlal Chakubhai Shah, Shri Bhawanji A. Khimji, Shri Khushi Ram Sharma, Dr. Jayantilal Narbheram Parekh, Shri Shivram Rango Rane, Shri S. S. Natarajan, Shri C. P. Mathen, Shri C. R. Basappa, Shri R. P. Navetia, Shri Radhelal Vyas, Shri Bhupendra Nath Misra, Swami Ramanand Shastri, Shri Sarju Prasad Misra, Choudhary Raghubir Singh, Shri Krishnacharya Joshi, Shri B. R. Bhagat, Shri Banarsi Prasad Jhunjhunwala, Shri Jagannath Kolay, Shri Lokenath Mishra, Shri Tek Chand, Shri Ghamandi Lal Bansal, Shri Radheshyam Ramkumar Morarka, Shri U. M. Trivedi, Shri Tulsidas Kilachand, Shri M. S. Gurupadaswamy, Shri Jaswantraj Mehta, Shri Narayan Rao Waghmare, Shri Kamal Kumar Basu, Shri T. B. Vittal Rao, and the Mover, and 15 members from Rajya Sabha;

that in order to constitute a sitting of the Joint Committee the quorum shall be one-third of the total number of members of the Joint Committee;

that the Committee shall make a report to this House by the 15th February, 1956;

that in other respects the Rules of Procedure of this House relating to Parliamentary Committees will apply with such variations and modifications as the Speaker may make; and

that this House recommends to Rajya Sabha that Rajya Sabha do join the said Joint Committee and communicate to this House the names of members to be appointed by Rajya Sabha to the Joint Committee;"

The motion was adopted.