# SUCKING UP SURPLUS: SEBI NEEDS FINANCIAL AUTONOMY TO REMAIN EFFECTIVE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

The Centre's decision to clip the wings of the Securities and Exchange Board of India has not gone down too well with its members. Yet, the Centre is refusing to budge. In a letter dated July 10, SEBI Chairman Ajay Tyagi said the Centre's decision to suck out SEBI's surplus funds will affect its autonomy. SEBI employees had also written to the government with the same concern. As part of the Finance Bill introduced in Parliament, the Centre had proposed amendments to the Securities and Exchange Board of India Act, 1992 that were seen as affecting SEBI's financial autonomy. To be specific, the amendments required that after 25% of its surplus cash in any year is transferred to its reserve fund, SEBI will have to transfer the remaining 75% to the government. On Friday, the government rejected the plea from SEBI's officials asking the government to reconsider its decision, thus paving the way for further conflict. *Prima facie*, there seems to be very little rationale in the government's decision to confiscate funds from the chief markets regulator. For one, it is highly unlikely that the quantum of funds that the government is likely to receive from SEBI will make much of a difference to the government's overall fiscal situation. So the amendment to the SEBI Act seems to be clearly motivated by the desire to increase control over the regulator rather than by financial considerations. This is particularly so given that the recent amendments require SEBI to seek approval from the government to go ahead with its capital expenditure plans.

A regulatory agency that is at the government's mercy to run its financial and administrative operations cannot be expected to be independent. Further, the lack of financial autonomy can affect SEBI's plans to improve the quality of its operations by investing in new technologies and other requirements to upgrade market infrastructure. This can affect the health of India's financial markets in the long run. In the larger picture, this is not the first time that the government at the Centre has gone after independent agencies. The Reserve Bank of India and the National Sample Survey Office have come under pressure in recent months, and the latest move on SEBI adds to this worrisome trend of independent agencies being subordinated by the government. The Centre perhaps believes it can do a better job of regulating the economy by consolidating all existing powers under the Finance Ministry. But such centralisation of powers will be risky. Regulatory agencies such as SEBI need to be given full powers over their assets and be made accountable to Parliament. Stripping them of their powers by subsuming them under the wings of the government will affect their credibility.



By aiding defections, the BJP is shrinking opposition space in an unseemly fashion

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