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Clean-up act

SEBI's drive to clean up margin funding may cause short-term pain but is important for market health

SEBI's ex-parte interim order against Karvy Stock Broking, barring it from accepting new clients and asking depositories not to execute select instructions from it, has created considerable uncertainty for over two lakh clients of the broking firm, while sending ripples of unease across the securities market. However, from a reading of its interim order, SEBI appears quite justified in its actions to clean up this murky area of stock trading in India.

The Karvy order was triggered by an NSE inspection finding several lapses on complying with regulatory requirements on separating clients' accounts from its own. The NSE has alleged that the broker pledged securities belonging to clients and credited the proceeds to its own bank account. Off-market share transfers were made from demat accounts of clients who hadn't made any recent trades. A key depository participant account was not disclosed and ₹1,096 crore was transferred from the broking firm to Karvy Realty. SEBI has found these transactions to be prima facie violating its stock-broking regulations, and thus issued an interim order to protect investors' interests, even as a forensic audit probes the veracity of these findings. Karvy has been given 21 days to present its side of the case. It has insisted that it has complied with regulations and will be able to clear its name. While Karvy may have been singled out here, the disturbing truth is that co-mingling of clients' securities and funds is not all that uncommon at Indian brokerages. The root of the problem lies in the margin funding facilities offered by broking firms, where short-term traders avail of generous leverage to transact in shares worth many times the sums lying in their accounts. Broking firms, instead of putting up their own capital, pledge the unpaid shares lying in such clients' account to raise the leverage money, pocketing lucrative spreads. The Power of Attorney that investors sign while opening brokerage accounts actively facilitates such deals.

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Noting that margin funding using client's accounts was potentially market-disruptive, SEBI has been on an overdrive in the last 12 months to rein in this practice. In a series of circulars, it has set strict deadlines for winding up defaulting clients' accounts and transferring pooled securities to clients. In June 2019, it expressly asked brokers to wind down margin funding using client's shares and to carve out a specific 'Client's Unpaid Securities Account' to avoid mingling. This diktat is said to have landed quite a few brokers in hot water and may well have adverse implications for market liquidity and trading volumes in the coming months. But this short-term pain is perhaps necessary for the securities market to emerge healthier in the long run. While margin funding deals help brokers and the exchanges drum up short-term trading volumes that bolster their profits, they're inimical to the interests of long-term investors as they undermine trust and create systemic risks. In fact, SEBI needs to probe why the stock exchanges and depositories, as first-line regulators, allowed such dodgy practices to thrive under their very noses for so long.

OTHER VOICES

Khaleej Times

Naked greed for power bruises India's democracy

As the Bharatiya Janata Party (BJP) continues its relentless march across Indian states and jackboots towards a monopoly, its latest acquisition of the coveted state of Maharashtra in a pre-dawn blitz has raised more than eyebrows. Pulling the rug from under its erstwhile ally, the Shiv Sena, was not foreseen as the Sena played footsie with the Congress and was ready to bid for the government. DUBAI, NOVEMBER 25

GLOBAL TIMES

HK district council elections result needs rational analysis

Hong Kong radical forces and Western supporters behind them wanted to stage a political demonstration during the voting. They tried to deny the urgency of ending chaos in Hong Kong. But we want to say that the pro-democracy camp winning more seats doesn't mean Hong Kong voters support violent demonstrations. Majority of Hongkongers are tired of violence and are yearning for order to be restored. BEIJING, NOVEMBER 25

DAWN

Disparaging CPEC

There are legitimate concerns about the impact that investments coming into Pakistan under the CPEC umbrella will have on the country's economy, but the recent intervention of US Assistant Secretary Alice Wells in this debate only serves to muddy the waters rather than spark a helpful conversation. KARACHI, NOVEMBER 25

How to make coal mining sustainable

Establishment of a single body to oversee the coal industry can ensure compliance with all mining and environmental standards

R SRIKANTH

Notwithstanding the optimism over renewables displacing fossil fuels rapidly, coal will continue to dominate India's electricity generation for at least a couple of decades more. Given this scenario, how can we ensure that the coal sector incorporates sustainability — with regard to social aspects, economic dependencies, and ecological sensitivities — into the mining process, right from the planning stage?

Coal fuelled approximately three-fourths of the country's electricity generation in FY 2018-19. In addition to electricity generation, it is also a vital input for other core industries like steel and cement, which play a critical role in the country's development. Despite being the world's second-largest coal producer, India imported 235 million tonnes of coal at the cost of more than ₹1.7 trillion during FY19 (See Chart).

While mining operations have positive economic impacts on the local area in terms of infrastructure development, provision of employment and business opportunities, adverse effects of coal mining on the ecology of the local area are also well known. The changes in the ecosystem of the region are particularly significant in the case of open-cast coal mines, which account for approximately 94 per cent of the coal produced in India. All mining operations entail a temporary diversion of land for mining and allied activities, after which the mine owner must rehabilitate the mined-out land for beneficial use of the local communities.

Therefore, the Ministry of Coal (MoC) mandates every owner of an open-cast coal mine to deposit ₹6,00,000 per hectare of the total project area in annual installments (to be escalated using the wholesale price index from August 2009 onwards) into an escrow account managed by the Coal Controller.

Final mine closure

The Coal Mines (Special Provisions) Act, 2015, permits the government to auction coal mines to the private sector for captive and commercial purposes. The government has auctioned 24 coal blocks to private companies till March 2019, and will be further auctioning coal blocks for commercial mining by both Indian and foreign companies.

Government-controlled public sector companies may not have any difficulty in meeting their financial obligations related to the final mine closure. However, there is a risk that some coal mines operated by private companies, or State government entities who outsource their coal mines to private entities, may be closed without having the necessary funds to complete the mine closure activities as per the approved Mining Plans.

The ability to successfully rehabilitate mined-out areas is fundamental to the coal industry's social license to operate. The practice of releasing up to 80 per cent of the escrow amount after every five years, based on progress in indicative activities, may not ensure the availability of adequate funds for final mine closure.

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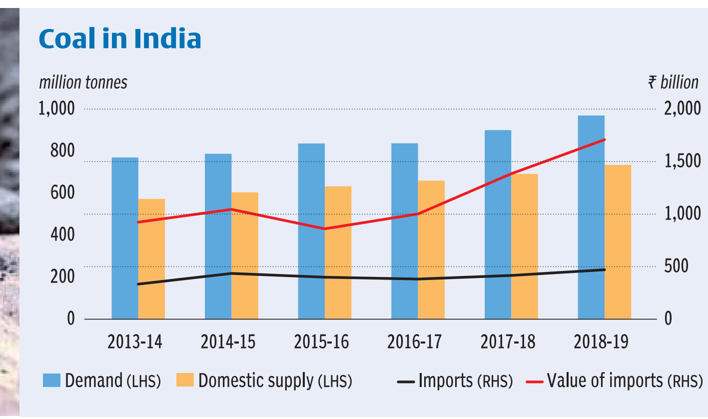
Therefore, India needs more effective and efficient regulatory governance to streamline approvals while ensuring the adoption of advanced technologies for mining, environment protection, and reclamation.

Unified authority

In 2014, a high-level committee appointed by the Central government recommended the creation of a National Environment Management Authority, including, *inter alia*, a special cell with appropriate expertise to deal with coal mining.



Coal is a central subject, and government companies produce more than 94 per cent of the coal in India. Therefore, the government must set up an independent, multi-disciplinary unified authority on the pattern of the Director-General of Mines Safety, which is staffed with varied scientific and technological experts required to regulate all matters related to health and safety in the mineral industry.

Such an authority must have in-house professional expertise in the ecological, environmental, geological, mine planning, hydrogeology, biodiversity, and social aspects of coal mine closure to consider all these facets in an integrated manner before granting all key statutory approvals for coal mines.

Once this authority is functional, the role of the MoC in approving Mining Plans, the powers of the Coal Controller to issue Mine Opening/Closing Permissions and manage escrow accounts related to mine closure, and the role of the Ministry of Environment, Forest and Climate Change (MoEF&CC) in issuing environment/forest/wildlife clearances for coal mines, must be handed over to this authority. These steps are critical to remove the overlapping jurisdictions of multiple bodies which govern matters related to forest, environment, and mine opening/closure in India.

While this authority must also be empowered to enforce compliance of these clearances by all coal mines in India throughout operation right up to final closure, it need not be involved in the allotment of coal blocks or in regulating the coal market. Any appeal against an order/decision made by this authority may lie only with the National Green Tribunal.

Official Code

To achieve the above goals, the Parliament must enact a "Sustainable Coal Mining Code" to consolidate all statutory provisions governing opening/closing and environment/forest matters related to coal mines. This Code must empower the unified authority to ensure efficient and effective environmental governance of coal mines in the manner explained above.

Since 1977, the Office of Surface Mining Reclamation and Enforcement (OSMRE) in the US has ensured that mine owners operate their open-cast coal mines in a manner that protects the local communities and the environment during mining, as well as rehabilitate the mined-out land for beneficial use post-mining. Therefore, the OSMRE may also be a role model for the proposed unified authority.

A dynamic equilibrium between environment conservation and development for inter-generation equity is the need of the hour in India. An empowered unified authority for coal mining can ensure effective compliance with all statutes related to mining, environment, forest, and mine opening/closure in coal mines by using remote sensing and GIS-based tools for remote surveillance in conjunction with quarterly inspections of each coal mine.

This authority will also facilitate job creation and contribute to a reduction in coal imports by ensuring "ease of doing business" without compromising on forest and environment compliances.

Ultimately, this will contribute to the realisation of India's Sustainable Development Goals and facilitate both energy security and sustainability for India during the ongoing energy transition.

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Maharashtra politics transcends the bizarre

The chaotic horse-trading in the State has reached new heights of absurdity, at the cost of India's democratic ideals

RASHEEDA BHAGAT

The roller coaster ride in Maharashtra would have been a rollicking comedy, but for its tragic overtones. As the BJP, the Shiv Sena, the NCP and the Congress play musical chairs — flouting all rules of the game — it is difficult to believe that we were once proud of our democracy. Yes, the *aya Ram-gaya Ram* culture was present, but it used to be an aberration, not the norm. But in recent years, after every election that doesn't get a clear majority for a single party, the shameful saga of manipulation and horse-trading reaches a new low.

Take Goa in 2017, which threw up a hung Assembly with the Congress emerging the single-largest party, but it was the BJP that formed the government; or Karnataka in 2018, where the BJP emerged the single-largest party, but the government was formed by the Congress and the JD(S). The Congress, which had lost Goa the previous year, as its leadership snoozed and the BJP stole power from under its nose, was super active in Karnataka. The BJP had 104 seats, but fell short of the required 113; the Congress was second with 78 and Gowda and Co's JD(S) got 38 seats. Before the BJP could shore up its numbers — by dubious means of course — a super-active Congress went with folded hands to the JD(S), and offered it the Chief Ministership despite having more than double the number of MLAs, just to keep the BJP out.

Within 14 months, the BJP and the unhappy Congress MLAs brought down the Karnataka government, and BJP's BS Yediyurappa became Chief Minister.

Strange tactics

But the eccentricity in Karnataka politics goes back 13 years, and might just be a precursor of what is happening in the Sharad-Ajit Pawar camp. In 2006, the Congress-JD(S) government led by Dharam Singh fell as HD Kumarasamy took away a faction of his party and joined the BJP to form the government and become CM. His "shocked" father and former PM, Deve Gowda, took on a *maun* mode and communicated only through his aides and even "dismissed" his son from the party. But later, it was found that the "betrayal" was a master manipulation by Gowda himself to make his son CM. Alas, what won't fathers do to make their sons CMs — or maybe uncles too, to crown their nephews deputy CMs — as might be the case in Maharashtra, as Sharad Pawar knows all the tricks in this trade.

Power play People's vote undermined

This time, the mandate was clearly in favour of the pre-poll alliance NDA — the BJP (105 seats) and the Shiv Sena (56). But with the BJP not doing as spectacularly well as was expected, and the NCP-Congress alliance getting a surprisingly high 90 seats (46 for the NCP), Shiv Sena chief Uddhav Thackerary upped the ante and demanded a revolving or 50:50 Chief Ministership. Turned down by a miffed BJP, the saga of strange bedpartners began.

Unholy alliance

Proving yet again that nothing is impossible in politics, the Congress-NCP duo yanked off its "secular" mask double quick, and hectic moves began for this unholy alliance to come together to form the Maharashtra government. That is, until the BJP stole the senior Pawar's nephew from right under his nose in a midnight coup and made him deputy CM before his uncle could smell the morning coffee!

On Monday, the saga moved to the Supreme Court and the suspense continued on who would actually form the government. The Congress spokesperson said it would be "the people's government" soon. This gives birth to the question which "people", among several others.

Will it be a government formed with a gun on the head of the protagonist (the junior Pawar), who had a mega corruption investigation initiated against him by the previous BJP-Sena government? If former Finance Minister P Chidambaram can rot in jail for months, how long would a corruption-tainted nephew (or even uncle for that matter) hold out? Did people expect the BJP, which returned to power earlier this year at the Centre with such a brute majority, to sit by and twiddle its thumbs while India's most prestigious State, with the cash cow Mumbai, slips away from its empire? Did Sharad Pawar really meet PM Narendra Modi to discuss farmers' distress, or to clear the dark clouds looming over his extended family?

The puzzle will be unscrambled in the coming days, but the taint on our democracy spreads. Is the use of money, muscle power, and the Enforcement Directorate going to be the new normal in forming governments in the States in the future? Or is it going to be even more bizarre, like a BJP-Congress government?

So what does is it make voters, including celebrities, who go with all fanfare to vote, flashing their inked finger on social media, feel like when their mandate is flung aside with such contempt? "We the idiots", as a newspaper headline screamed on this issue?

LETTERS TO THE EDITOR

Send your letters by email to bleditor@thehindu.co.in or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.

Telecom sector

This refers to 'Telecom quick-fix' (November 25). Telecom is turning out to be the next aviation business because of the kind of returns it gives, not only here in India but worldwide. Deferral of spectrum payments could only bring partial reprieve. Until and unless the return on capital employed is increased, this business is not going to be viable. If Vodafone leaves the Indian market, as it has been threatening, the consumers will be the one to lose.

The duopoly of Reliance Jio and Airtel may take end users for granted, knowing well that there is no other competition. Even the merger of BSNL and MTNL will not benefit consumers, as these two PSUs were not offering any value to the users.

So, the government must incentivise telecom companies to push for 5G at the earliest and invest more in R&D for future technologies to make customer experience better and richer.

Bal Govind
Noida

Encouraging innovation

Apropos 'Role of ethics in business of innovation' (November 25). India is lagging in innovations and inventions, although it has a vast potential in terms of intelligence and youth power. There are many reasons for this failure — one of the most important ones is that our education system does not encourage innovation and research. Research and innovative ideas should be encouraged at school level. The lack of government support for research and innovations also puts constrains on talent.

The problem with India is that even if some of good Samaritans pool their fortunes for innovations and research, they cannot be sure where the money will go. The moment governmental/statutory terms are introduced, corruption and lethargy of politicians drags the process.

Let the Modi government call a special meeting of experts from various fields and start a new body to encourage innovations/research in all fields. The Prime Minister should prove to the world that that India is not far behind in inventions and innovations. If we want development, economic growth and employment opportunities for millions of youth of the nation, we cannot continue with age-old methods. There is no dearth of talent in India, but a giant push is required to tap this talent.

Veena Shenoy
Thane

Employee termination

This refers to the article 'Tech workers' body tells IT firms to stop giving bad appraisal to staff' (November 25). That IT companies sack employees by giving them after warning them to improve their services in the short span of two months is unfair, but inevitable in these days of falling revenues and recession. That this has reportedly caused the suicide of one such employee is unfortunate.

Asking the IT firms to pay six months' salary as compensation to the sacked employees will no doubt provide them a breather to recoup and find alternate employment; although, how far the companies would accept this demand is debatable. Expecting the government to absorb the sacked employees is also impractical. A better and long-term solution would maybe be to provide counselling to the laid-off employees. There are a number of alternative jobs available in the market. The mistake that most youngsters commit is in looking for jobs that are similar to the ones that they have just lost, in terms of remuneration and profile. It is here that they need to be practical, flexible and positive.

V Jayaraman
Chennai

Investors' money

Apropos 'No misuse of clients' securities, says Karvy' (November 25). Through this reply, Karvy is trying to cover the massive diversion of clients' money since 2016, as reported by the NSE. No argument of Karvy will stand, as all payouts through which the clients are to get the money in exchange for selling their stock were not met for months. This fraud by Karvy has put many investors in lurch.

Unfortunately, in India such perpetrators always escape as the government fails to act on time. In this case, too, SEBI has given Karvy 21 days to reply to the allegations — enough time for Karvy to manipulate facts.

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