

Rules to Allow Brokers to Invest in Unrelated Business may be Eased

Our Bureau

New Delhi: The finance ministry on Tuesday proposed to relax rules that, experts said, could allow stock brokerages to invest in non-securities or unrelated businesses as long as they don't use client money or securities, or create financial liabilities.

The move, proposed as part of the ministry's draft amendments to the Rule 8 of the Securities Contracts (Regulations) Rules (SCRR), would lift fetters on brokers with surplus net worth and reserves to invest their own money, the experts said. This would expand their revenue streams and bolster their financial strength.

At the same time, the move protects client assets and ringfences them from any potential abuse by brokers, they added.

In a consultation paper on Rule 8 of the SCRR, the ministry said, "... investments made by a member shall not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker."

Currently the Rule 8 "prohibits brokers to engage as a principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent in any

other business but not involving any personal financial liability", the ministry said. But the rule doesn't clearly define the term "any business", which is now subject to interpretation, it added.

So, the proposed amendment essentially seeks to stipulate that broker investments will not be considered "business" unless they involve client funds, client securities, or create financial liabilities.

"The change is aiming to balance the need for market integrity with the commercial flexibility of brokers," said Anjali Malhotra, partner (Regulatory) at Nangia Andersen India.

"By explicitly allowing investments that do not affect client funds or create liabilities, the amendment addresses concerns that the current rule places harsh restrictions on brokers' ability to make bona fide investments," Malhotra said.

The ministry has sought public comments on the proposed amendments by October 10. "Allowing brokers to use this surplus for ancillary businesses with appropriate safeguards would help them diversify their revenue streams, improve financial stability, and strengthen their capital base, ultimately contributing to a more resilient market infrastructure," said Moin Ladha, partner at Khaitan & Co.

