

## Of securities markets and slack, slothful resources

By MS Sahoo and CKG Nair, Last Updated: Apr 14, 2008, 03:35:00 AM IST

### **Synopsis**

Resources are scarce with competing demands and the objective is to put them to the most efficient use.

Resources are scarce with competing demands. The objective is to put them to the most efficient use. Market mechanism, supported by technological advancements, professes to ensure this.

Real time is the magic mantra in the securities markets. Failure to align the markets in real time produces arbitrage opportunities which are encashed by operators travelling in speed greater than time! One would then not expect unused, unclaimed resources scattered on this market landscape. Thanks to lack of transparency and awareness, we have resources worth billions sitting idle in the form of various assets and incomes.

Welcome to the world of slack and sloth resources in the markets. Take the example of unclaimed shares. A company is a legal person with perpetual succession. The ultimate members constituting the company are the natural persons. On their death, the property in the shares owned by them passes on to the nominees or legal successors.

There are, however, cases where there are no claimants to this property after demise of a member or even a member has lost track of the property. In such cases, the name of the member continues to appear in the register of members or in beneficial accounts with the depositories. The member or any other person legally entitled to this property on his behalf is not available to operate the beneficial account, cast his vote or receive corporate benefits. Older the company, larger is the number of such missing members and larger is the unclaimed property. The law is silent on appropriation of the property in these shares.

Another example of slack resources is the public issues. Assuming that an amount of Rs 500 billion is raised through public issues in a year, these are oversubscribed 24 times (Sasken was oversubscribed 400 times! Reliance Power received a subscription of Rs 8 trillion!), and if all investors bring in the entire subscription amount along with application, an amount of Rs 12 trillion would be locked up with bankers to issue.

Till refund, the bankers to issue enjoy a float of Rs 12 trillion for 15 days or Rs 500 billion for a year. Assuming that this amount can be invested in call money market at an annual rate of 3%, it would earn an interest of Rs 1,500 crore. If technology and regulations co-operate, the float period can at best be reduced to two days - first day for application, second day for allotment and third day for refund, something similar to T+2 settlement in secondary markets. Even in that case the interest proceeds would be Rs 200 crore. Though bankers to issue enjoy this windfall, the pricing of their services does not reflect this.

The investors keep money and securities with intermediaries for variety of purposes such as custody, asset management, advance payment for transactions on their behalf, etc. For various reasons, a part of these assets remain unused for long time and eventually unclaimed. Further, an intermediary closes his business voluntarily or is directed to do so by authorities and despite notice, all investors dealing with that intermediary do not come up to close their accounts. Similarly, Collective Investment Schemes declare payment of dividend or interest to their unit holders.

At times, investor or his legal successors are not available to claim these. The property in all these cases remains unused. Yet another category of slack resources is funds at the disposal of defunct institutions. Most of the institutions have some kind of funds to protect investors.

If they close down their business or they lose business to others because of competition, they would not need these funds. Since these funds are organised as trusts, they cannot appropriate it. For example, stock exchanges have built up investor protection funds over time. Since many of them are defunct now, they do not need these funds any more.

This is not an exhaustive list of slack resources in securities markets. Similar slack resources exist in other segments of markets. These include unclaimed balances in bank accounts, insurance policies, savings with post offices, and so on. What is important is that the unclaimed assets with intermediaries do not enter into business model and are not reflected in the pricing. These provide unearned incomes for private benefit.

Some other slack resources remain unclaimed, unappropriated and unused. Both reflect economic loss to the system. At times, property remaining unclaimed for long is claimed by dubious means by non-entitled persons and adds to regulatory cost. It is desirable to identify such slack resources in the entire landscape and make them useful to the economic system.

It is desirable that the details of unclaimed property in financial instruments with intermediaries (banks, insurance companies, post offices, depositories, portfolio/fund managers, custodians, other intermediaries) as well as in the books of issuers of these instruments, funds with defunct institutions, residue on closure of not-for-profit institutions are made available on a public platform for, say, seven years. This would enable the legal successor, nominee or other claimant, if any, know the existence of these properties and claim it up to seven years following a prescribed procedure.

After this 'incubation' period the property in these instruments can be credited to a dedicated fund. This fund can be used for helping - educating, protecting, compensating - investors in financial instruments. This is not to advocate that such a fund should be built only out of slack resources. The resistance would be least if such slack resources are used: apart from the fact that such idle resources become part of the moving income useful to the economy.

**(The authors are senior civil servants.**

**Views are personal)**