The comments on this report may please be e-mailed at anjariacom@sebi.gov.in on or before 20th August 2005.

Report of the Committee

on

Future Fee Structure for Stock Brokers

Securities and Exchange Board of India

November 2003

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Part One – The Objectives and Methodologies

1. Levy of Fees on Stock Brokers

The Securities and Exchange Board of India Act, 1992 authorises the Securities and Exchange Board of India (SEBI) to levy fees for registering and regulating the market intermediaries, including stock brokers. It empowers SEBI to collect such fees as may be determined by the regulations from the applicants who seek registration. The SEBI (Stock Brokers and Sub-Brokers) Rules, 1992, notified by the Central Government on August 8, 1992, requires a stock broker to pay registration fees in the manner provided in the regulations framed by SEBI. The SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, notified by SEBI on 23rd October 1992 with the approval of the Central Government, enumerates the fees to be paid by the stock brokers. It relates the registration fees to the volumes of transactions effected by a stock broker and provides that such fees shall be payable for first five years based on the annual turnover relating to the preceding financial year. The brokers, aggrieved by the prescribed fee structure, represented to SEBI that the demand was excessive and the collection of same based on turnover was unreasonable and arbitrary. On such representations, SEBI appointed an Expert Committee (R. S. Bhatt Committee) to look into the interpretation of 'turnover' in the context of fees payable by stock brokers. The committee submitted its report on 18th December 1992 and recommended concessional rates of fees for certain types of transactions. It observed that the turnover was a fair basis for determination of registration fees and the incidence of fees prescribed by SEBI was not unreasonable. The Government and SEBI accepted the recommendations of the Committee in principle. SEBI advised the brokers on January 7, 1993 to pay fees in the manner prescribed by the Bhatt Committee. In meantime several writ petitions challenging the registration fees based on turnover, SEBI's competence to levy fees, etc. were filed by the brokers in various High Courts. All these petitions were transferred to the Supreme Court which dismissed the transfer petition (No. 502/2000) on February 1, 2001 and upheld SEBI's powers to levy fees for carrying out the purposes of the SEBI Act. It also held that turnover can be a measure of the levy of fees. It, however, directed SEBI to incorporate the R. S. Bhatt Committee recommendations in the regulations. The regulations were amended on February 20, 2002 to provide for concessional rates for various transactions and exclude some transactions from turnover. Two circulars clarifying the various issues raised in the representations of the brokers were issued on March 28, 2002 and September 30, 2002. The brokers have been paying the fees as per amended regulations.

2. Constitution of the Committee

The fee structure for the brokers prescribed in the regulations is based on the recommendations made way back in 1992 by the R. S. Bhat Committee. The recommendations of the Committee were based on the then level of brokerage earned by the brokers. Since then the market structure has witnessed sea change, which coupled with fierce competition among brokers, has brought down the level of brokerage drastically over the years. Hence the fee structure prescribed in 1992 is not in tune with the level of brokerage prevailing after a decade. This necessitated a review of the fee structure for stock brokers. Accordingly SEBI appointed a Committee under the Chairmanship of Mr. D. C. Anjaria to consider, in light of the present level of brokerage fees, a revision of future fee structure for the brokers, from the one laid down in the R. S. Bhatt Committee Report, to be applicable prospectively. The Committee was constituted on January 21, 2002 with the following members:

i. Mr. D. C. Anjaria (Chairman of the Committee)
ii. Representative of the BSE Brokers 'Forum
iii. Representative of the Securities Industries Association
iv. President of the Institute of Chartered Accountants of India
v. Representative of the Investors 'Grievance Forum
vi. Mr. Ravi Narain, MD, NSEIL
vii. Mr. A. N. Joshi, ED, BSE
viii. Mr. Pratip Kar, ED, SEBI

ix. Ms. D. N. Raval, ED, SEBI

x. Mr. Nagendra Parakh, CGM, SEBI

xi. Mr. Ravi Kumar, GM, SEBI

xii. Mr. P. K. Bindlish, GM, SEBI (Member Secretary of the Committee)

During the term of the Committee, the composition of the committee changed as some of the members remained busy otherwise or left the organisation they represented on the committee and they were substituted by new members. At the time of drafting of this report, the following were members of the Commiittee:

i. Mr. D. C. Anjaria (Chairman of the Committee)

ii. Mr. Mohan Kumar Vijan, Chairman, BSE Brokers 'Forum

iii. Ms. Deena A. Mehta, National convenor, Securities Industries Association

iv. Mr. R. Bupathi, President, Institute of Chartered Accountants of India

v. Mr. Bharat Kotecha, Vice President, Investors 'Grievance Forum

vi. Ms. Chitra Ramakrishna, DMD, NSEIL

vii. Dr. Manoj Vaish, ED, BSE

viii. Mr. Pratip Kar, ED, SEBI

ix. Mr. R. S. Loona, ED, SEBI

x. Mr. Nagendra Parakh, CGM, SEBI

xi. Mr. P. K. Bindlish, GM, SEBI

xii. Mr. M. S. Sahoo, CGM, SEBI (Member Secretary of the Committee)

At the request of the Association of NSE Members of India (ANMI), their representative was invited to all the meetings of the Committee. Mr. V. D. Aggarwal, past president of ANMI attended all the meetings. Many officials / office bearers of SEBI, NSE, BSE, ANMI, ICAI attended the meetings of the committee by invitation or represented members of the committee in the meetings. Ms. Anita Kenkare, AGM, SEBI arranged and provided inputs required by the Committee.

3. Meetings of the Committee

The Committee held six meetings (September 03, 2002, September 18, 2002, October 03, 2002, November 25, 2002, February 04, 2003 and August 18, 2003) to deliberate at length what would constitute a reasonable level of fees in the three market segments – Cash Equity, Cash Debt and Derivatives, so that fees payable by brokers are fair in the light of the present level of brokerage charged to their clients.

4. Present Fee Structure

The Committee reviewed the present fee structure. SEBI (Stock–Brokers and Sub-brokers) Regulations, 1992 prescribes the fees to be paid by the stock brokers. It originally provided that a stock broker shall pay a sum of:

a. Rs. 5,000 for each financial year where the annual turnover does not exceed Rs. 1 crore during any financial year and
b. Rs. 5000 plus one hundredth of one percent of the turnover in excess of Rs. 1 crore for each financial year.

After the expiry of five financial years from the date of initial registration as a stock - broker, he shall pay Rs. 5,000 for a block of five financial years commencing from the sixth financial year after the date of grant of initial registration to keep his registration in force.

Such fees shall be computed with reference to the annual turnover relating to the preceding financial year.

Several representatives / Presidents of the various stock exchanges sought clarification from SEBI on the meaning of 'turnover' as mentioned in the Schedule III of the regulations. SEBI appointed the R. S. Bhatt Committee to look into various aspects of 'turnover' in the context of fees payable by stock brokers. The R. S. Bhatt Committee submitted its report on December 18, 1992. The recommendations of the R. S. Bhatt

Committee were in principle accepted by SEBI and the Central Government. The Committee concluded and recommended the following:-

i. Using turnover as the basis of payment of registration fees was a well established practice in a country like the US and that it was a fair basis.
ii. The incidence of fees was not unreasonable.
iii. For jobbing transactions identified and included in the turnover, the scale of fees may be reduced to one two hundredth of one percent.
iv. In case of carry forward renewal or badla transactions, the off setting entries made by the Exchange may not be counted as part of the turnover.
v. For Government securities and PSU bonds and units traded in the similar manner, the scale of fees may be reduced to one thousandth of one percent.
vi. Brokers would be responsible for reporting transactions in securities not reported to the stock Exchanges for payment of registration fees.
vii. The Exchanges shall ensure that the registration fees are properly calculated and paid to SEBI.
viii. Trades put through on other stock Exchanges would be included in the turnover of that Exchange.
ix. The activities such as underwriting and collection of deposits would not be taken into account for the purpose of calculating the turnover of the brokers.

As stated earlier, while dismissing the transfer petition, the Supreme Court directed SEBI to incorporate the R.S. Bhatt Committee recommendations in the Regulations. This was done by SEBI on February 20, 2002. Accordingly, while the normal transactions would attract a fee liability of one hundredth of one percent, certain transactions would attract different rates as indicated below:

(i) in respect of jobbing transactions (transactions which are squared off during the same day and which have not been undertaken by the broker on behalf of clients), the fees shall be computed at the rate of one two hundredth of one percent in respect of the sale side of such transactions;

(ii) in respect of transactions in government securities, the bonds issued by any Public Sector Undertaking and the units traded in a similar manner, the fee payable shall be computed at the rate of one thousandth of one percent of the turnover;

(iii) in case of carry forward, renewal or badla transactions the fees shall be computed at the rate of one hundredth of one percent of the turnover and the reverse off setting transactions shall not be counted as part of the turnover.

(iv) if brokers are carrying out transactions in securities without reporting them to the stock exchange, those transactions shall be taken into account for the purpose of turnover and the fees shall be computed at the rate of one hundredth of one percent of the turnover;

(v) the trade put through other stock exchanges shall be included in the turnover of that exchange if market for that security does not exist on the exchange of which he is a member and the fees shall be computed at the rate of one hundredth of one percent of the turnover;

(vi) activities such as underwriting and collection of deposits shall not be taken into account for the purpose of calculating the turnover.

After the expiry of five financial years from the date of initial registration as a stock-broker, he shall pay a sum of rupees five thousand for every block of five financial years commencing from the sixth financial year after the date of grant of initial registration to keep his registration in force.

Wherever fresh registration is granted, the broker shall be liable to pay fresh fees except in case of conversions into corporate form where fee continuity benefit has been granted on fulfilment of certain conditions.

Need for further review was felt in relation to the fee structure in the cash market since it is no more aligned with the current brokerage rates, though it was aligned with the brokerage rates in 1992. Besides, it is a very complicated structure as it levies the fees at different rates for different types of transactions. The fee structure in the derivatives segment is also not aligned with the brokerage rates. Hence, a new committee was set up to review the fee structure.

The members of the Anjaria Committee noted that highly competitive market conditions were driving down the current brokerage rates charged to the clients. It, however, was also noted that the brokerage income is sufficient in all cases to produce a positive gross margin after covering other major cost elements such as stamp duties and service tax. SEBI fees, to be reasonable, need to ensure that the brokers' gross margin still remains positive. However, if brokers are subsequently unable to cover all of their other fixed costs of being in the business, they ought to reconsider their business model.

5. Suggestions from Market Participants

The members of the Committee were requested to put in writing their views in detail along with their analysis which could be deliberated in the meetings of the Committee. A few non-members also sent their suggestions for consideration of the Committee. The suggestions were received from Fixed Income Brokers Association, ANMI, BSE Brokers' Forum, NSEIL, BSE, ICAI, Investors' Grievance Forum. The main suggestions were:

i. Registration fee to be levied on stockbrokers should be reasonable and should be commensurate with the services rendered by the regulator either directly or indirectly for the stock brokers.

ii. Registration fee may be based on products or transactions, but the incidence should be based on the premise of Bhatt Committee recommendations i.e. 1% of brokerage earned.

iii. The revised fees should be calculated by the Stock Exchanges and directly debited to the Brokers' account and passed on to SEBI.

iv. SEBI may review the registration fee every three years. However, there should be an overall cap of registration fee payable by the brokers on all segments put together to ensure the least burden on the investors.

v. The SEBI Registration Fee should be payable per broker and not per stock exchange.

vi. SEBI may give one time exemption of interest and ask the brokers to pay their turnover fees till 31st March 2003. From 1st of April 2003 all new members and those members who have not paid the fees, may be required to pay the fees at the same rate as applicable in the derivatives segment of the Stock Exchange. Those members who have already paid the fees or would pay the fees till 31st March 2003, may continue to pay Rs. 5,000/- for a block of 5 financial years.

vii. The rate of interest on delayed payment should be reasonable, i.e. P.L.R.+1% or bank rate as announced by RBI plus 2%.

viii. SEBI can consider whether a lump sum fee for various categories of brokers can be levied or alternatively a variable fee based on transactions can be levied on brokers with an upper cap.

ix. It may be prudent to distinguish levy of turnover fee for delivery based vis-à-vis non delivery based transactions undertaken by the brokers in view of the fact that the monitoring of the transactions as well as services rendered by the brokers are higher in case of delivery based turnover, as clearly reflected in their brokerage rates.

x. In case, a common rate is to be prescribed to avoid complication of calculations, an average rate based on average brokerage earned by the brokers can be levied.

xi. If the corporate entity or the firm remains the same, any change in partner or directors or shareholders or transmission cases should attract a flat fee at a rate of Rs. 5,000/-.

xii. Registration fee may be annual and based on turnover, but may be segregated in two parts i.e. squared up turnover and non-squared up turnover.

xiii. Registration fee may be levied for initial period of first five years as per prescribed rates and thereafter Rs.5000/- per annum till the registration is alive.

xiv. Registration fee should be on the broker and not on multiple membership cards.

xv. Keeping in mind the economic and commercial realities of the debt market broking, and the developmental role SEBI has to perform, it is reasonable that a nominal fee of 0.01% of the gross revenue is charged as SEBI fees.

The Committee discussed and gave serious consideration to the above suggestions.

6. Determination of Brokerage Rates

The present Committee felt that the fees to be charged on transactions should be such that they would constitute about 1% of the normal brokerage rate. Reliable data on current level of brokerage rates was, therefore, necessary to arrive at a reasonable fee structure under the current market conditions. The market participants represented in the Committee, namely the Exchanges and brokers' associations, were advised to furnish the brokerage data in respect of some brokers. BSE Brokers' Forum, NSEIL and BSE furnished the brokerage data for 2001-01 and 2001-02 in respect of some brokers. The Committee analysed the data but found that the brokerage rates varied widely across the exchanges and brokers and no meaningful conclusion about the level of brokerage could be arrived at. Under the circumstances, the Committee felt that only way out to establish authentic brokerage rates was to inspect the books of a representative sample of brokers. The Committee therefore advised SEBI to inspect the books of about 200 brokers - 100 each of NSE and BSE for the financial years 2000-01 and 2001-02 respectively. The Committee suggested that the sample may consist of 25% of the brokers doing only delivery based (institutional) business, another 25% doing only proprietary business and the balance 50% carrying on both square-off as well as delivery-based businesses.

In pursuance of the committee's recommendation, SEBI carried out inspections of brokers' books. The following principles were adopted in selecting the sample:

i. SEBI obtained two lists of brokers – one, institutional brokers (brokers having more than 50% institutional/ delivery based business) and two, all other brokers. It also obtained their total turnover figures for the financial year 2001-02.
ii. The brokers were arranged in the descending order of the turnover in four categories, namely NSE-institutional, NSE-other, BSE-institutional, and BSE-other.
iii. Since the delivery based business generally constitutes about 20% of the total turnover, it was decided that the ratio of institutional brokers to other brokers to be picked for inspection should be 1 : 4.
iv. Similarly, since the number of brokers of NSE is relatively higher than that of BSE, the ratio of NSE to BSE brokers should be 5 : 3.
v. Every nth broker should be selected from each category following the rules (ii), (iii) and (iv) above, to get a sample of 200.

From the information forwarded by the NSE and the BSE, it was observed that there were only 28 brokers of NSE and 40 brokers of BSE falling under the category of 'Brokers having more than 50% institutional/ delivery based business'. Hence, all 68 brokers falling in this category were short-listed for the sample. In order to get the balance sample of 150, NSE and BSE brokers from the 'Other brokers' category, as per the principle laid down in (iv) above, a sample of 94 brokers of NSE and 56 brokers of BSE were required to be selected. By applying the principle in (v) above, every 9th broker of NSE and BSE was selected from a total of 908 of NSE and 553 brokers of BSE appearing in the "Other brokers' list, to get a sample of 101 NSE brokers and 62 BSE brokers.

Chartered Accountants were appointed to inspect the books of the brokers. They were advised to inspect at least 1000 contract notes for 2001-02 and 1000 for 2002-03 from all categories of transactions for each broker. They were advised to submit for each broker:

i. a statement (Statement – I as given at Annex - I) of 2000 contract notes inspected by them,
ii. a statement (Statement – II as given at annex - II) indicating brokerage for each type of transactions inspected by them and
iii. a report indicating high low range, hidden costs, etc. which they gather from the inspection.

A brief on the manner of carrying out the inspection and reporting is outlined below:

i. The Chartered Accountants were advised to find out the total turnover and the total number of contracts issued under each category of transactions (12 categories were identified) for the financial years 2001-02 and 2002-03.
ii. They were then required to pick up at random a sample of 1000 contract notes each for the financial year 2001-02 and 2002-03 respectively, in such a way that each category of transaction gets represented in the sample in the same ratio that the sample size has to the total number of contracts issued by the broker for that year, ignoring proprietary transactions.
iii. A Statement - I showing the value of the contract and the brokerage charged by the broker contract note-wise for 2000 contracts was required to be prepared.
iv. A Statement – II showing the value of the total turnover and total brokerage for each category of contract notes inspected for each year was required to be prepared based on Statement - I.
v. In addition, the Chartered Accountants were required to submit a report indicating their judgment about the brokerage rate/s being levied by the broker.
vi. It was advised that as far as possible, they should go by the hard copies of contract notes and only in exceptional cases, where it may not be possible due to some genuine reason, the soft copy of data may be used.

vii. As regards other charges such as service charge, stamp duty charges, handling charges, etc., if any, passed on by the broker to the client, it was advised that only the actual amount charged by the broker as brokerage in the contract note may be incorporated in the statements under the head brokerage. However, a brief on the nature and quantum of other charges, if any, being passed on by the broker to the clientwas required to be given separately.

viii. In cases, where one contract note may comprise of both delivery and square-off transactions and, hence, the brokerage may be clubbed, it was advised that under such circumstances, the apportionment of brokerage under the different categories may be done by the Chartered Accountant using his sense of judgement.

SEBI could get 175 inspection reports. These were compiled by internal auditors of SEBI to arrive at brokerage for each type of transaction, each type of market and for the market as a whole for the years 2001-02 and 2002-03. They found out from the inspection reports the brokerage rate for each kind of transaction for each broker, based on inspection of sample contracts. They weighted this brokerage rate by the turnover of the relevant category of transaction of each broker and averaged it to arrive at the brokerage of that category of transaction for the market as a whole. Thereafter they found out weighted average of brokerage for each type of market based on the brokerage rate of each category of transaction. Then they found out weighted average of brokerage of the market as a whole based on the brokerage rate of each type of market. Their findings are presented below:

Type of Market	Type of Transaction	Turnover of the inspected brokers (Rs. crore)		Brokerage (%)	
		2001-02	2002-03	2001-02	2002-03
Equity	Institutional Clients	72,296	74,563	0.3947	0.3438
	Retail Clients – Delivery	12,093	19,952	0.3528	0.3162
	Retail Clients - Non-delivery	66,403	95,582	0.0317	0.0359
	Retail Clients – Delivery & Non-delivery	29,522	24,615	0.1357	0.1266
	Total for Equity	1,80,314	2,14,712	0.2158	0.1793
Debt	G-Secs	459,531	614,343	0.0023	0.0029
	PSU Bonds	4,319	8,608	0.0177	0.0060
	Other instruments	10,261	13,259	0.0069	0.0035
	Total for Debt	474,111	636,210	0.0025	0.0029
Derivatives	Index Futures	2,418	7,223	0.0611	0.0633
	Index Options	377	4,215	0.0762	0.0287
	Stock Futures	4,702	27,423	0.0635	0.0518
	Stock Options	2,345	10,269	0.0650	0.0711
	Unclassified	2,915	11,126	0.0623	0.0410
	Total for Derivatives	12,757	60,256	0.0634	0.0529
Off-market – Equity & Debt		8,854	33,105	0.0156	0.0143
Total Market		676,036	9,44,283	0.0607	0.0466

The brokerage rates presented above in respect of cash equity segment are average rates for non-proprietary transactions. In respect of the cash debt and derivatives segments they are average brokerage rates for all types of transactions taken together. Sample weights have been used to arrive at the average for each segment as well as for the entire market.

Part Two – Recommendations of the Committee:

The Committee, after considering the results of the above analysis, suggested that following factors may be borne in mind while using the brokerage data for determining SEBI fees:

i. Transactions done on account of FIIs have a funding element the charges for which are recovered as part of the brokerage. Hence, the brokerage rates for institutional brokers need to be discounted to arrive at the brokerage earned on transactions for FIIs.

ii. Average rate of brokerage for the equity segment may not be determined by using sample weights. Since the ratio of non-delivery based transactions to delivery based transactions in the market is generally 4:1, the average brokerage rate for the equity segment may be worked out by using the weights of 4:1 to brokerage rates for these two groups of transactions respectively.

iii. The average brokerage rates for debt and derivatives segments are underestimated as these include proprietary transactions which attract no brokerage.

Taking the above factors into account, the 'benchmark' average brokerage rates for each segment per Rs. 1 crore of turnover were worked out as follows:

Market Segment	Benchmark Brokerage per Rs. 1 crore of turnover
Cash Equity Segment	10,000
Cash Debt Segment	500
Derivatives Segment	5,000

7. Guiding Principles

After detailed deliberations over six meetings and considering the suggestions of market participants, the Committee adopted the following canons to evolve an appropriate fee structure for stock brokers:

i. The structure should be **fair to all the parties concerned - brokers, investors and the regulator.** The basis and level of SEBI fees may be considered fair and reasonable if it passes all the following three tests:

   a. Since the incidence of the fees is on the brokers, it should have some relationship to the level of brokerage earned in each market segment. Roughly **1% of brokerage** is a fair level of fees.

   b. The fees should be **reasonable in relation to the overall transaction cost borne by the investor** in each market segment. It must also be transparent.

   c. The fees must **reflect** the demands for supervision on SEBI and in particular, its **cost of supervision of the secondary markets**.

ii. Fees should be **simple to calculate and convenient to collect**. The computation methodology should be so simple and unambiguous that it is intelligible to everybody and any two persons would arrive at the same figure. It should also be cost effective for collection. A huge machinery should not be used to determine and collect fee liability from stock brokers..

iii. The basis of fee calculation should be unambiguous and easily determinable with precision. The brokerage income, which varies from transaction to transaction, product to product, customer to customer, market to market, is not an appropriate basis for levy of fees. The **turnover on exchanges, which is a definite figure, is more appropriate as the basis for levy of fee**. All transactions executed on exchanges irrespective of the type of transaction, product or market segment may attract the fees.

iv. The **fees should be perpetual** as supervision of market is continuous. As the SEBI is required to supervise all transactions as and when they occur, the fees **should accrue with every transaction**. When a broker undertakes a transaction on the market, it should attract of fees.

v. The fee structure should have **only prospective application**. The stockbrokers who have paid fees at the prescribed rate for the first five years and are paying for every block of five years subsequently may not be subjected to perpetual fees.

vi. The structure should be **flexible enough** to adapt to changing market environment. If the brokerage rate changes, the rate of fee should also change. This means that the level of fees should be **reviewed every three years** to ensure that the levy is realistic.

8. Nature of SEBI Fees Defined

a. SEBI is collecting fees from registered brokers based on their turnover. The fee is intended to cover the level of supervision and costs of regulation that SEBI incurs on the brokerage business.

b. It is a normal practice in developed markets that the securities market regulator collects a fee from brokers (and other market participants) at the time of the initial registration and at periodic renewals. For clarity of purpose and to avoid unnecessary disputes between the regulator and the brokers, it is recommended that the fee may be called '**Broker Registration Fee**'.

c. The current market usage describing SEBI fees as 'Turnover Fee' seems to be somewhat misleading as it emphasises the method of fee computation as opposed to the purpose of the fee.

d.Similarly, the SEBI fees ought **not to be called 'Turnover Fee'**, as it seems to give the impression that it is some kind of a tax on brokers' business imposed by SEBI. In fact, it is called registration fee in the regulations, but the market participants are accustomed to call it the turnover fee, as it is based on turnover. SEBI's intention is not to impose a tax on brokers' business turnover or revenues, but to collect a fee to cover the costs of regulating the registered brokers.

e. Essentially, SEBI fees need to have a broad relation to the demands for supervision made on it. What more correctly reflects the workload of SEBI is the market turnover, not brokers' turnover. The number and value of transactions determines the level of supervisory task required. The task of supervision is not related to the level of brokerage charged – which is a commercial matter; the supervision depends on the turnover levels of the Exchanges which is determined by market conditions. Hence, the term **Market Turnover Fee** is more appropriate, if at all, than brokers' turnover fee. However, to avoid all confusion, the fee in question ought to be called Brokers' Registration Fee, whether they are collected regularly or once.

9. Basis of Calculation of SEBI Fees

a. The current practice of basing SEBI's registration fees for brokers on the turnover of brokers has caused inevitable confusion about the nature of this fee. The fee has often been referred to as a tax, which it is not and ought not to be. Besides, using the turnover of brokers as the basis for calculation of fees has caused endless and somewhat futile attempts at defining the term 'Turnover'. In the interest of the investors, the market participants and the regulators, it is essential to have a simple basis of calculation.

b. In the normal circumstances, brokers' income, stock exchanges' work-load, and SEBI's regulatory task - all depend upon the level of transactions executed on the market. The Committee, therefore, believes that **the most appropriate basis for calculation of the regulatory fees for brokers is the "Number and Value of transactions" put through the stock market** by the brokers. The higher the transaction volumes, the higher is likely to be the broker's income and SEBI's costs. Therefore, basing SEBI's fees on the transaction value of market turnover would be fair to brokers and SEBI alike. The Committee, therefore, recommends that SEBI registration fee for brokers be **a transaction fee based on the value of the transactions that broker has executed on the market during a given period.**

c. The advantages of this basis of calculation are many. Even for SEBI, there will be an incentive of sorts, as higher market transaction volumes will result in higher fees for them. For the investors, the benefit is that the cost of the transaction on the securities market on account of SEBI fees becomes known in advance and transparent. For market analysts and researchers, the transaction cost will be easily calculable (subject of course, to other elements of cost of stockmarket transactions also being known). The Committee recommends, therefore, that the SEBI registration fee not be a Broker Turnover Fee but a Market Turnover or Transaction Fee.

d. Though a fee must have some relation to the services rendered, or the advantages conferred, such relation need not be direct; a mere casual relation may be enough. That others besides those paying the fees are also benefited does not detract from the character of the fee. The stock brokers form an integral part of the securities market and the services to be rendered by SEBI are in reality for the benefit of the entire broking community. The practice of levying fees on the basis of turnover is not new in as much as in the United States of America, the stockbrokers have been paying fees based on the volume of transactions for the last 50 years or so.

10. Recommended Level of SEBI Fees

a. The next question is what percentage ought to be applied to the transaction amount that would result in the amount of SEBI fees being reasonable. The R.S. Bhatt Committee had considered 1% of brokerage as a reasonable amount. However, since the brokerage was to be applied to the brokers’turnover, the committee had to go into the definitions of different types of transactions that constitute the brokers’turnover. From the feedback received from the brokers’organisations, it is clear that the broking community is not averse to paying 1% of brokerage received as fees to SEBI.

b) However, 1% of total brokerage income received cannot be the direct basis of determination of SEBI fees for the following reasons:

i. SEBI fees are for registration and supervision of brokers. They are not a tax on the turnover or on the brokerage earned by the broking community.

ii. It is not advisable for SEBI to go into a determination of the brokerage income for each broker as the basis of determination of the fees. It is difficult to track the exact brokerage amount earned except by going through the service tax records later on. Again this would convert the SEBI fees into a tax on brokerage income, which it ought not to be.

iii. The level of supervisory effort required by SEBI depends on the number and amount of transactions put through the Exchanges and not whether the transaction was intended as an investment transaction or only as a trading transaction, or whether the transaction was for broker's own account or for a client. Hence, the SEBI fees ought to be payable on all market transactions, not just on investor transactions that earn brokerage income.

iv. Investors pay higher fees when taking or giving deliveries against their market purchases and sales. Relating SEBI fees directly to the brokerage earned for delivery based transactions or non-delivery based transactions will result in higher SEBI fees for investors who pay higher brokerage, while brokers' proprietary deals may be exempted from SEBI fees. This does not seem to a healthy or reasonable basis to treat investors or SEBI.

c) Based on above considerations, it is advisable to **apply a uniform set of fees to all transactions in a given market segment. SEBI fees in each of the three segments ought to be based on a "benchmark brokerage level". The benchmark brokerage level should be the brokerage as a percentage of the turnover in the particular market segment.**

d) The suggestion of the broker members of the Committee was that the benchmark level of brokerage ought to be the current brokerage rates charged in the market. However, there is no uniform level of brokerage even in each of the three market segments. Brokers indicate only a wide range of percentage rates currently charged to clients. At the further suggestion of the broker members of the Committee, SEBI made considerable efforts to compute effective brokerage rates from the global brokerage and turnover amounts obtained from the Exchanges. However, it was not possible to obtain what the current levels of brokerage are in each segment. Total turnover figures are available easily and reliably, but total brokerage figures are not. Hence, a direct relationship between turnover and brokerage currently prevalent in the market could not be established with even reasonable accuracy. This could be done with an inspection of the books of about 200 brokers of NSE and BSE.

e) **Following the principle of levying 1% of brokerage charges as SEBI fees,** and based on the brokerage arrived at through inspection of brokers, **the following fee structure is recommended**:

(For every Rs. 1 crore of Turnover)

Market Segment	Present Level of Brokerage	Rate Recommended for Future (Perpetual)	Present Rate*
Cash Equity	10,000	100	1000
Cash Debt	500	5	100
Derivatives	5,000	50	10

* Five years for cash segments and perpetual for derivatives segment. These are the rates for normal transactions.

11. Summary of Recommendations

a) The fees may be correctly named SEBI Broker Registration Fee’.

b) Fees should be payable by brokers on all transactions put through or reported to any of the recognised Exchanges in India.

c) All types of transactions - delivery or non-delivery, proprietary or non-proprietary - without any exception should attract fees, because all types of transactions require the same level of SEBI’s supervision.

d) The fees may be different for each major market segment – Cash Equity, Cash Debt and Derivatives, as each market segment is unique and requires a different level of supervision from SEBI. However, they should be uniform for all types of transactions in a given market segment..

e) The fees may roughly constitute 1% of prevalent average brokerage rates. However, there need not be any direct relationship between the level of fees and the brokerage income. Irrespective of the rate of brokerage, the transaction has to be supervised and it is not practicable to track brokerage income earned on each and every transaction.

f) The brokers in cash equity, cash debt and derivative segments may pay fees at the rate of Rs. 100, Rs. 5 and Rs. 50 respectively per Rs. 1 crore of market turnover (value of transactions put through or reported by the broker to any of the Exchanges). Since the recommended rate in the derivative segment is substantially higher than the current level of Rs. 10/- per Rs. 1 crore of turnover, SEBI may consider the upward revision of fees in a phased manner by increasing from Rs. 10/- per Rs. 1 crore of broker turnover as currently defined to Rs. 20/- per Rs. 1 crore of market turnover as now defined by the Committee, in the first instance. Over a period of time, it may be increased to Rs. 50 per Rs. 1 crore of market turnover.

g) In future, SEBI may modify the fee structure if it is significantly different from 1% of the brokerage levied from clients. A review every three years is recommended.

h) The Exchanges should be asked to collect the fees directly from the brokers by debiting the brokers' account on a monthly basis, and to remit the same to SEBI.

i) It is for the broker to decide whether to pass on the fee liability to their clients. SEBI should not prescribe anything in this regard.

j) The recommended fee structure may apply to new brokers in cash equity and debt segments. SEBI may clearly define who would be construed as new brokers. All brokers who obtain fresh registration certificates after the issue of regulations incorporating the recommended fee structure may be considered as new brokers. The recommended fee structure may apply to all brokers, existing or new, in the derivatives segment.

k) SEBI may consider formulating a scheme which provides an option to switch to the recommended fee structure for the existing brokers, who have not completed their payments for the first five years period in the cash equity segment or who have completed but not paid for first five years fully..

Date: November 28, 2003 (**D. C. Anjaria)**
Place: Mumbai Chairman

Statement 1: Details of Contracts Inspected **Annex - I**

2001-02			2002-03		
Contract No.	Value of Contract (Rs.)	Brokerage (Rs.)	Contract No.	Value of Contract (Rs.)	Brokerage (Rs.)
Equity -Institutional Clients					
1					
2					
.					
Total					
Equity - Retail - Delivery					
1					
2					
.					
Total					
Equity - Retail - Non-Delivery					
1					
2					
.					
Total					
Equity – Proprietary					
1					
2					
.					
Total					
Debt – Govt securities					
Debt – PSU Bonds					
1					
2					
.					
Total					
Debt – Other instruments					
1					
2					
.					
Total					
Derivatives – Index Futures					
1					
2					
.					
Total					
Derivatives – Index Options					
1					
2					
.					
Total					
Derivative – Stock Futures					
1					
2					
.					
Total					
Derivatives – Stock Options					
1					
2					
.					
Total					
Off Market Transactions (Equity and Debt)					
1					
2					
.					
Total					

Statement I1: Details of Turnover and Brokerage **Annex - II**

Type of Transaction			2001-02							
			Total Turnover		Inspected				Total Turnove	
			Turnover (Rs.)	No. of Contracts	No. of Contracts	Turnover (Rs.)	Brokerage (Rs.)	Rate of Brokerage (%)	Turnover (Rs.)	No. Contr
1			2	3	4	5	6	7	8	9
Equity	Institutional Clients		10000	1200	60	480	9	1.88		
	Retail Clients	Delivery	5000	2345	117	270	4	1.48		
		Non-Delivery	10000	4352	218	530	8	1.51		
	Proprietary Trades		20000	NA	NA	NA	NA	NA		NA
Debt	Government Securities		25000	500	25	1248	12	0.96		
	PSU Bonds		5000	2719	136	237	4	1.69		
	Other instruments		2000	4560	228	145	3	2.07		
Derivatives	Index Futures		5000	654	33	253	9	3.56		
	Index Options		3000	567	28	146	5	3.42		
	Stock Futures		10000	2456	123	348	16	4.60		
	Stock Options		5000	647	32	221	4	1.81		
Off market turnover (Equities and Debt)			0	0	0	0	0			
Total			100000	20000	1000	3878	74	1.91		

* Turnover in options is calculated by (Strike Price + Premium)*Quantity

Objective:
To ascertain the brokerages being charged by the broker for different types of transactions. This will be arrived at for each member by examining 1000 contract notes for the year 2001-02 and 1000 for 2002-03.

Turnover:
Obtain category wise total turnover in column 2 and 8 for the respective years and add them.
Obtain category wise total number of contracts in column 3 and 9 for the respective years and add them.

Inspection:
Pick up 1,000 contracts from all categories of transactions for each year. Assuming total number of contracts (transactions) for 2001-02 is 20,000, pick up randomly 5% (1,000/20,000*100) of contracts from each category. Number of contracts picked up in each category would appear in columns 4 and 10 respectively. Prepare statement 2 detailing these 1000 contracts. Find out value of turnover and brokerage of the contracts of each category and input in columns 5, 6, 11 and 12 in statement 1. Find out values in Column 7 by dividing the column 6 by column 5. Similarly for column 13.