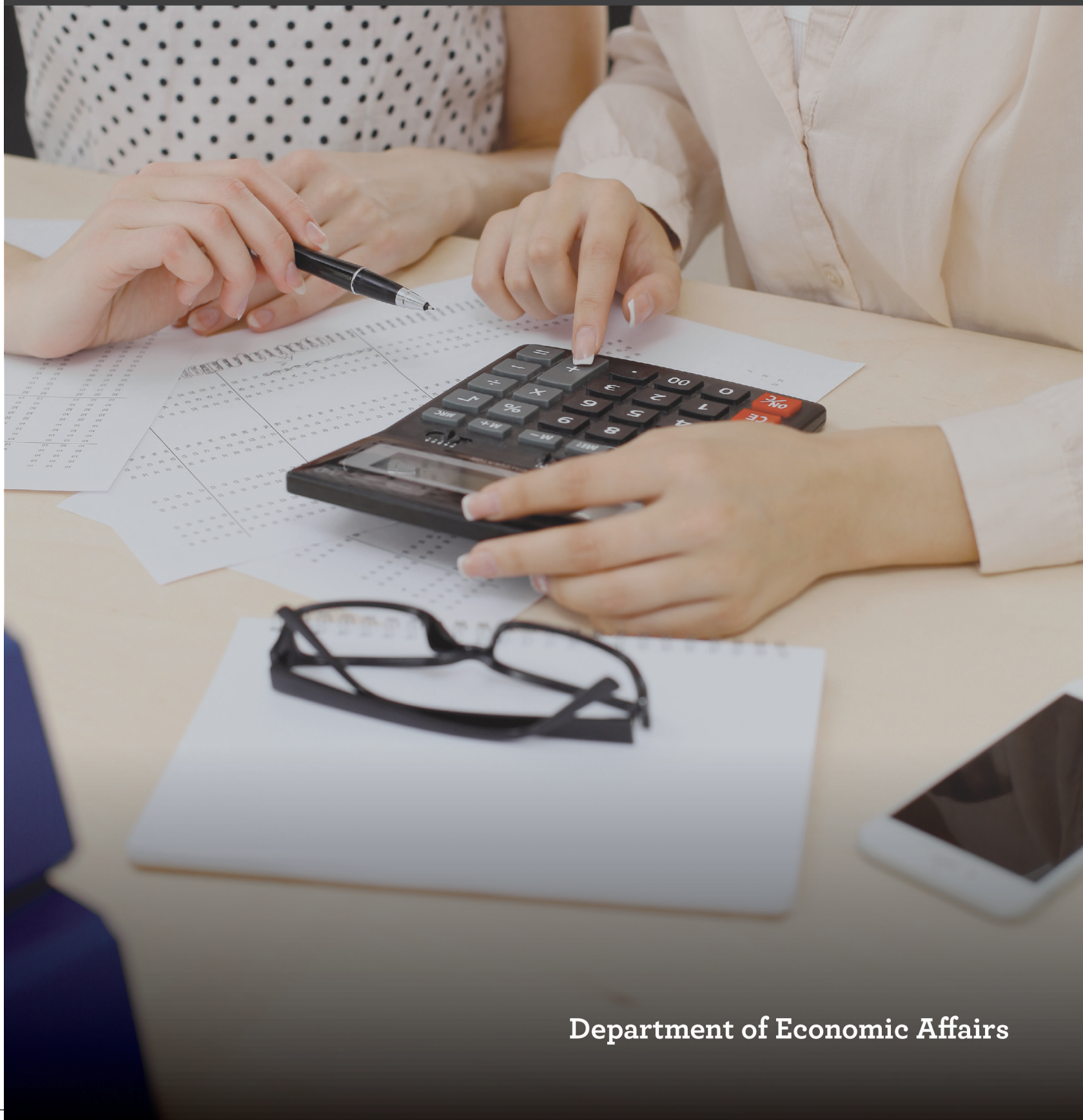
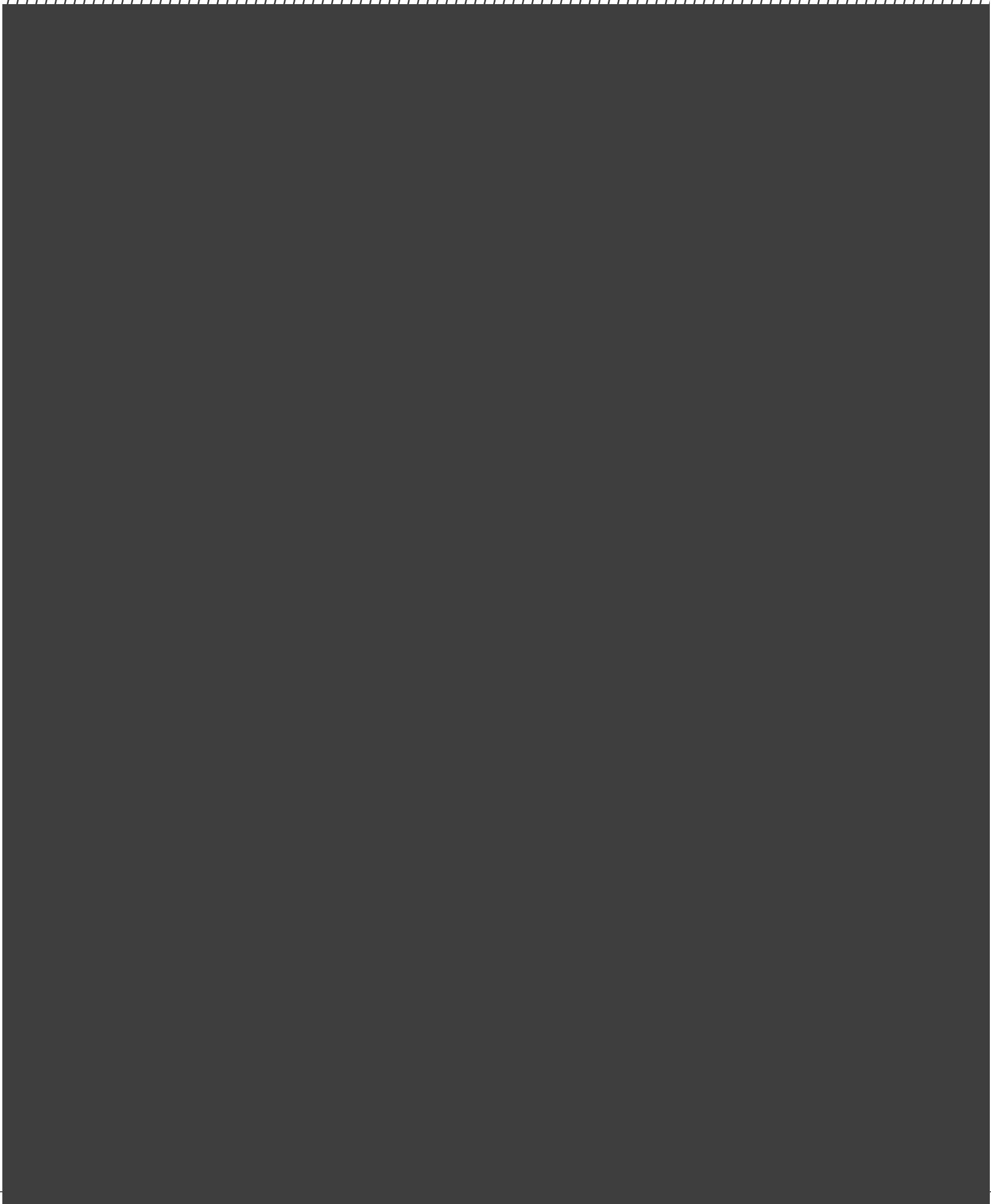




Department of Administrative Reforms and Public Grievances



Department of Economic Affairs



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Introduction



1.1 CONTEXT

The Department of Administrative Reforms and Public Grievances (DARPG) received 11,94,931 (related to Central government) grievances in 2016 across 88 Ministries/Departments through Centralized Public Grievance Redress and Monitoring System (CPGRAMS). This department's role is to facilitate the pursuit of excellence in governance through improvements in government structures and processes, initiatives and dissemination of best practices. Moving towards this goal, the department commissioned a grievance analysis study of top 20 Ministries/Departments receiving large number of citizen grievances. The study involved identification of top grievance categories and recommending systemic reforms. The Parliamentary Standing Committee for Personnel, Public Grievances and Law & Justice recommended conducting similar study for next 20 Ministries/Departments.

1.2 OBJECTIVE

The study carried by Quality Council of India, as per the mandate given by DAR&PG, was conducted from August 2016 to March 2017, covering more than 100 grievance categories across 20 Ministries/Departments. A team of consultants was deployed to understand issues in depth from the officials and collect information from more than 70 domain experts. Moreover, this team of consultants conceived the methodology, process and outcome of the study. It is hoped that this study will bring the necessary third party evaluation into picture for guiding the schemes and providing useful lessons for similar evaluations on a larger scale in future.

1.3 IDENTIFICATION OF 20 MINISTRIES/DEPARTMENTS

The grievances received on the portal provided the source for data analysis. The top 20 Ministries/Departments were covered in the earlier grievance study. This study identified next 20 Ministries/Departments, based on the number of grievances received by the particular Ministries/Departments (from 01.04.2012 to 31.03.2016). For the scope of this particular report we will be focusing on the Department of Economic Affairs (S.NO 34).

Table 1: List of 20 Grievance Study Ministries

| S.No | Ministry/Department | Number of grievances |
|------|---|----------------------|
| 21 | Information and Broadcasting | 18,567 |
| 22 | Financial Services (Insurance Division) | 17,840 |
| 23 | Environment, Forest and Climate Change | 17,323 |
| 24 | Corporate Affairs | 17,084 |
| 25 | Consumer Affairs | 16,047 |
| 26 | Agriculture Cooperation and Farmers Welfare | 14,342 |
| 27 | Electronics & Information Technology | 12,729 |
| 28 | Social Justice and Empowerment | 12,637 |
| 29 | Civil Aviation | 12,448 |
| 30 | Rural Development | 11,646 |
| 31 | Drinking Water and Sanitation | 10,723 |
| 32 | Power | 10,392 |
| 33 | Women and Child Development | 9,773 |
| 34 | Economic Affairs | 9,553 |
| 35 | Commerce | 9,509 |
| 36 | Water Resources, River Development & Ganga Rejuvenation | 9,265 |
| 37 | Food and Public Distribution | 8,292 |
| 38 | Housing and Urban Affairs | 7,287 |
| 39 | Defence Finance | 6,604 |
| 40 | Coal | 6,346 |

1.4 INTRODUCTION TO THE DEPARTMENT OF ECONOMIC AFFAIRS

Department of Economic Affairs (DEA) is the nodal agency of the Union Government to formulate and monitor country's economic policies and programmes having a bearing on internal and external aspects of economic management. One of the principal responsibilities of this Department is the preparation of the Union Budget every year. Some of the main functions include:

- Formulation and monitoring of economic policies at the macro level inter alia relating to the functioning of Indian Banking Industry, Insurance Agencies and Capital Market including Stock Exchanges.
- production of bank notes and coins of various denominations, postal stationery, postal stamps, etc.

On the internal front, the cardinal role of DEA relates mainly to formulation of ways and means to raise internal resources through taxation, market borrowings, regulation of money supply and mobilization of small savings.



11,94,931 grievances
were received on PG portal in 2016
across 88 Ministries/Departments

83% of the grievances
were disposed by Ministries/
Departments in 2016

Rank 34 of 88 Ministries/
Departments (based on the number
of grievances received from 2012-16)

2,076 complaints were
received by Department of
Economic Affairs in 2015-16

65% of grievances were
received by Capital Market Division

25% of grievances were for
grievance category- Investor woes
in capital markets

18% of the grievances were for
Commodity Market Issues

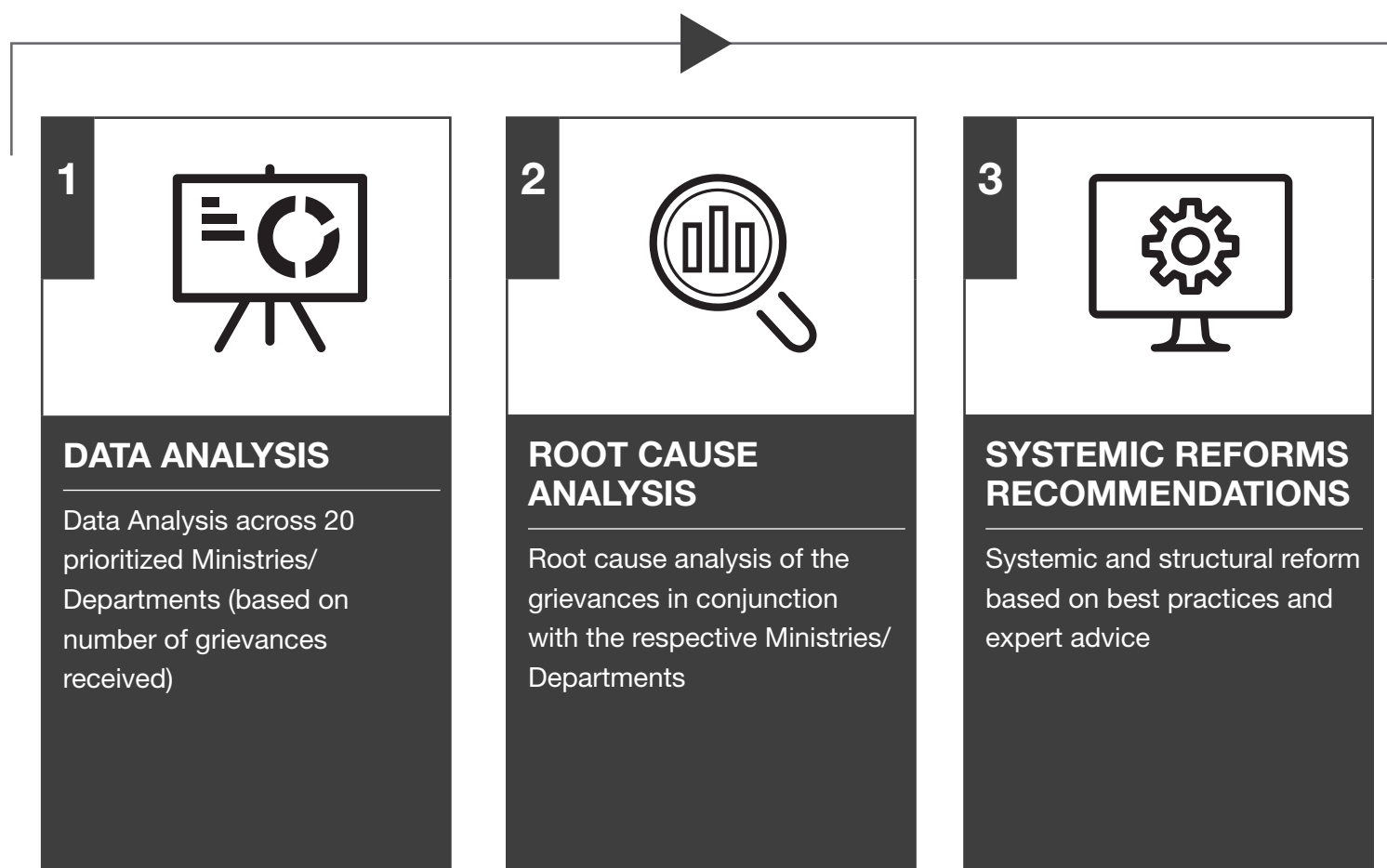
38.25% * of the
grievances will be impacted, as
and when suggested reforms are
incorporated

* The percentage has been computed after multiplying a) Percentage of grievances under shortlisted divisions (CM Division DEA and Commodity Derivatives) with, b) Percentage of addressable grievance categories

Deep Dive Grievance Analysis



The three point approach for grievance analysis study includes data analysis, root cause analysis, and systemic reforms recommendations for the service issues.



2.1 DATA ANALYSIS

2.1.1 IDENTIFICATION OF TOP DIVISIONS

The shortlisted divisions were the ones receiving maximum grievances (from 1.4.2015 to 31.3.2016). The highest grievances were received by department of Capital Markets (CM), which accounted for 65% of grievances received. Another 22% of the grievances were received by Coin & Currency Division and Budget Division.

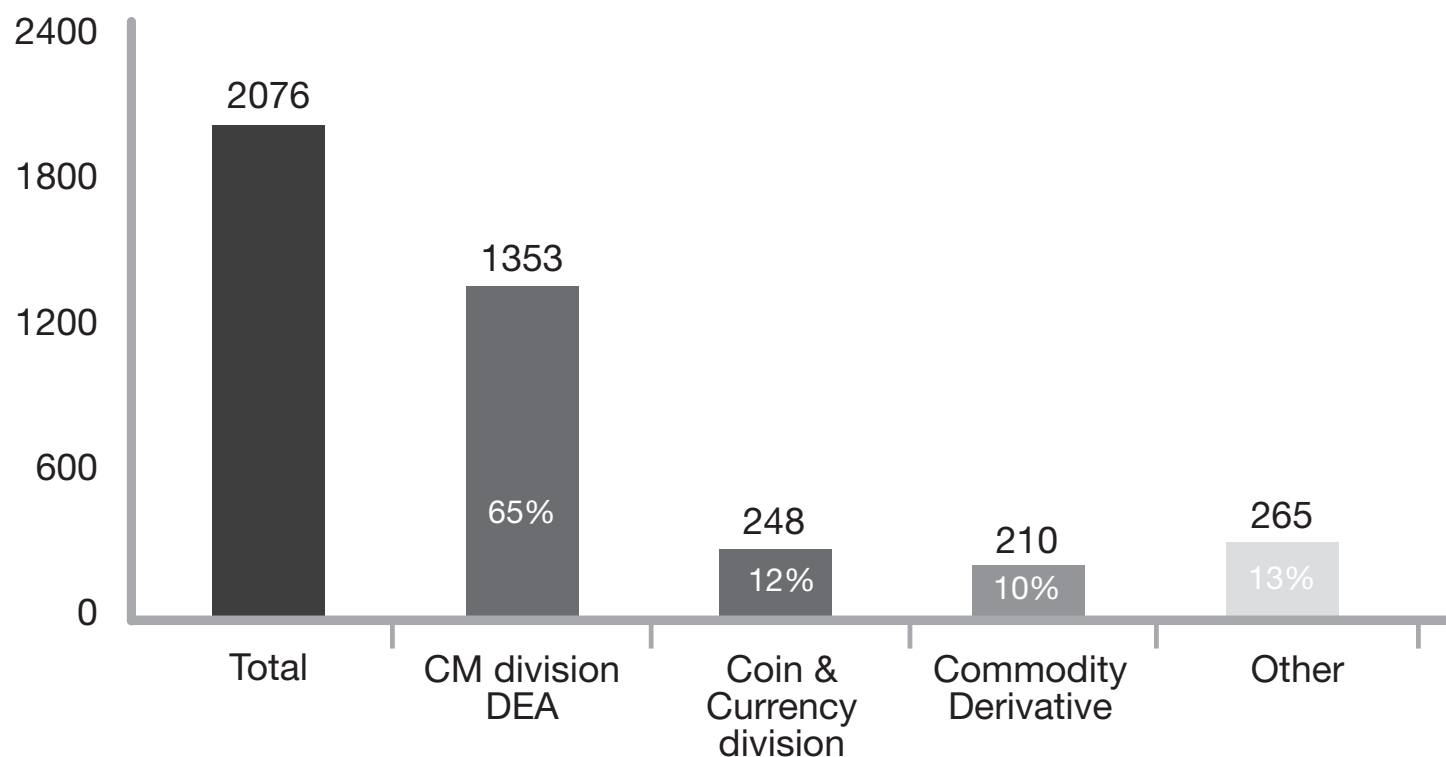


Chart 1: Categorized grievances received by divisions from 1.4.2015 to 31.3.2016

2.1.2 IDENTIFICATION OF FOCUS SERVICE

Grievance data in each division was deep dived and 10% of sample was analyzed

Table 2: Sample size selected for the study

| | | |
|--------------------------------|------------------------------|---|
| DEPARTMENT OF ECONOMIC AFFAIRS | 2076 NUMBER OF GRIEVANCES | 250 TOTAL SAMPLE GRIEVANCES ANALYSED |
|--------------------------------|------------------------------|---|

The next step was grievance-by- grievance analysis for a sample of the grievances received by the top Divisions, namely, Capital Markets Division & Commodity Derivatives Division and top recurring issues were categorized.

AN EXAMPLE OF A GRIEVANCE ANALYZED IS AS FOLLOWS





“Regarding closure of the office of BASIL INTERNATIONAL LIMITED in Patna, Bihar Sir, I had sent one representation to SEBI vide- DARPG/E/2016/05180 dated 30-03-2016 which has been disposed with the remark that the BASIL International Limited is in the process to refund the money to investors with promised interest but I don’t understand how to get in touch with the company as the company has closed its office in Patna, Bihar and has left no email id for communication for the investors in Bihar to communicate. As I mentioned in my representation that the company says that it has stopped receiving the claim to get the refund and other such tricks to deprive us of my hard-earned money. I, therefore, appeal you to do the needful categorically in this regard to help me get the refund I attach the disposal report by SEBI.

ACTION BY DEPARTMENT OF ECONOMIC AFFAIRS

SEBI has passed Final Order dated Feb 06, 2015 in the matter of M/s Basil International Ltd. Vide the said Order, the company is directed to refund the money collected from public through issuance of Redeemable Preference Shares (RPS). As informed by the company, it is in the process of refunding the money.

For the Department of Economic Affairs, the top most issue for the Ministry revolved around investor woes concerned with Securities & Exchange Board of India (SEBI), Commodity Markets issue, refund of scams & Employee grievances, accounting for 25%, 18%, 17% & 8% of the grievances.

Table 3: Focus services for root cause analysis

| S.No | Grievance Causing Issues | Impact* | Details |
|------|---|---------|---|
| 1 |  Securities & Exchange Board of India related issue) | 25% | <ul style="list-style-type: none"> • Non-receipt of shares, dividend pay-outs or bonus shares • Unfair judgement awards by the Stock Exchanges & SEBI • Unauthorized and unlawful transaction by the brokers as Trading Members (TM) • Unsatisfactory Grievance Redressal |
| 2 |  Commodity Markets Issues | 18% | <ul style="list-style-type: none"> • Require Status on (National Spot Exchange Ltd.) NSEL Scam • Significant losses due to the levy of Commodity Transaction Tax (CTT) |
| 3 |  Refunds of scams | 17% | <ul style="list-style-type: none"> • No refund has been received in scam cases like Sahara Ltd |
| 4 |  Employee grievances | 8% | <ul style="list-style-type: none"> • Wages not received by workers of a company, declared bankrupt |

* Grievance Sample Analyzed : 250

2.2 ROOT CAUSE ANALYSIS (RCA)

With regards to grievance category non-refund scams like Sahara, was deprioritized for the reform recommendation exercise, as most of these cases are sub-judice.

The root cause of the other addressable focus issues was dug deeper for root cause analysis. For this, the study team spent time with each implementation body within that division to understand core processes, accountability and performance tracking. Domain experts were also consulted to understand root cause for each grievance category.

The questions revolved around policy, process and people problems that were leading to lack of quality implementation.

To address the investor grievances relating to dividends, SEBI has made it mandatory for the top 500 listed companies (in terms of market capitalization), to have a 'dividend distribution policy' which will broadly list out the circumstances and financial parameters (internal & external) under which a shareholder may or may not expect a dividend. This policy will need to be disclosed in the annual reports and websites.

Table 4: Root Cause Analysis of grievances related to Department of Economic Affairs

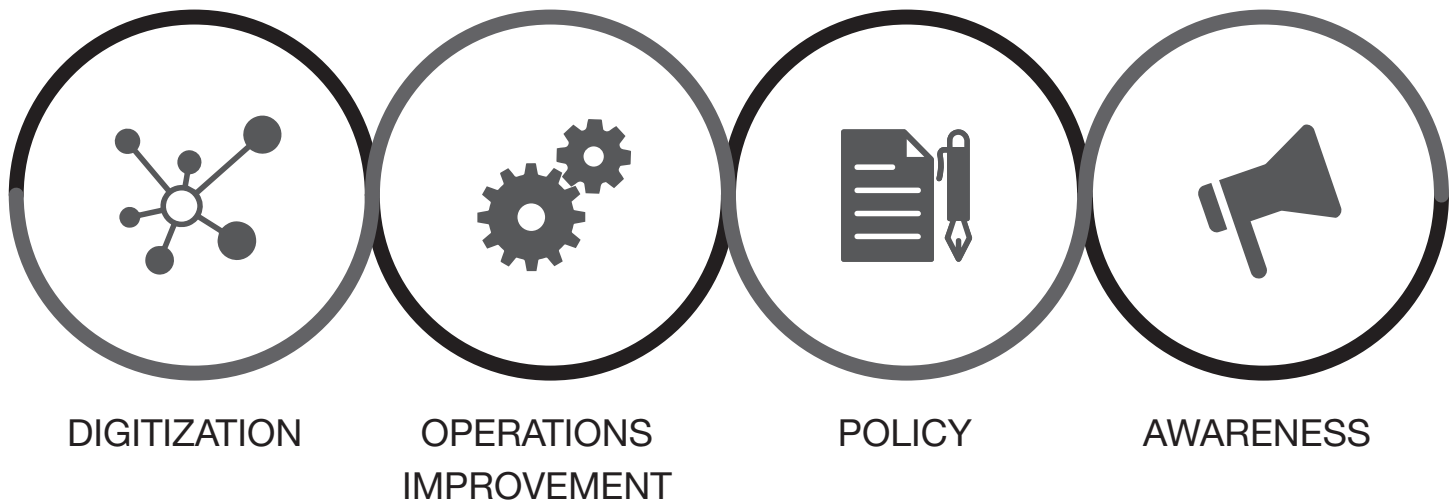
| Issue | Sub-Issue | Root Cause |
|---|---|---|
| Investor Woes (Securities & Exchange Board of India related Issue) | Non-receipt of shares, dividend pay-outs or bonus shares | <ul style="list-style-type: none"> Wrong expectation to the holder regarding payouts Contact Details present with the company are those of the brokers' instead of the actual investor |
| | Unauthorized and unlawful transaction by the brokers (as TM) | <ul style="list-style-type: none"> Lack of awareness among the aggrieved Demat credentials to the agent generally disclosed No proofs to establish wrong-doing by the agents |
| | Unsatisfactory Grievance Redressal | <ul style="list-style-type: none"> Lack of awareness among the complainants about the escalation channels Insufficient contact details to reach back to the complainant in terms of missing fields or discrepancies |
| Commodity Market Issues | Disadvantages of Commodity Transaction Tax (CTT) | Imposition of CTT is due to the following reasons: (Policy Level Intervention) <ul style="list-style-type: none"> Parity among the derivative products Revenue Consideration Audit Trail |
| Employee Grievances | Complains regarding non-payment of wages to workers of a company, declared bankrupt | <ul style="list-style-type: none"> Many such Cases are sub-judice Aggrieved unaware of The Insolvency & Bankruptcy Code, 2016 which states "After the costs of insolvency resolution (including any interim finance), secured debt together with workmen dues for the preceding 24 months rank highest in priority" |

2.3 SYSTEMIC REFORMS RECOMMENDATIONS

Based on the key root cause for improper delivery of service, corresponding recommendations were identified and designed. These recommendations were arrived after discussing with the Ministry/Department representatives.

For each issue, the problem was broken into multiple parts to ensure that each aspect of the problem is addressed independently, while ensuring maximum impact. Systemic and structural reform recommendations were made, broadly falling in either of the following buckets

AREAS ACROSS WHICH SYSTEMIC REFORMS ARE SUGGESTED



Systemic Reforms

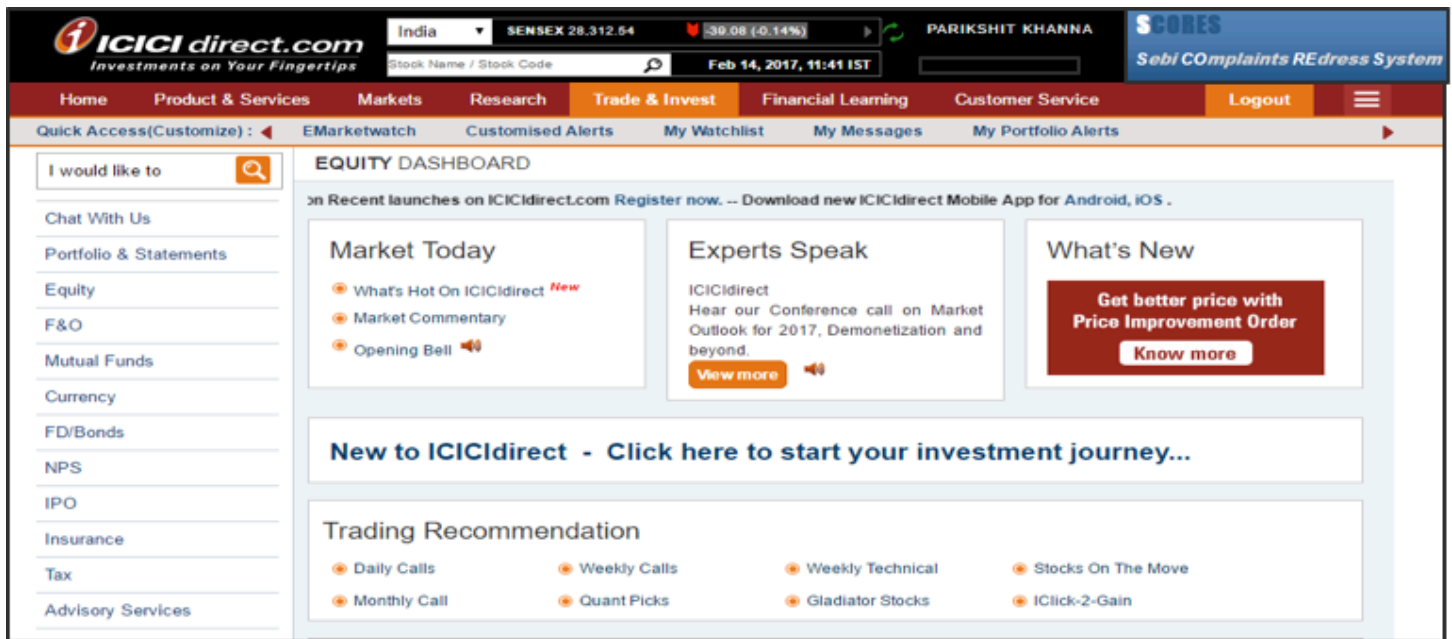


Capital Market schemes affect a large chunk of the population, directly and indirectly. The role of the Department of Economic Affairs (DEA) and the regulator is hence quite vital

There are areas in terms of policy formulation, implementation where few reforms can bring a major impact. Five recommendations have been made based on best practices adopted by state governments and other stakeholders.

Table 5: Systemic Reforms for Department of Economic Affairs

| S. No | Reform Category | Systemic Reforms | Ease of implementation |
|-------|------------------------|---|------------------------|
| 1 | Digitization | Requirement from Brokers (& other entities acting as Trading Members (TM) on the behalf of investors), to record and retain trade requests that are made over the phone | Medium |
| 2 | Operations Improvement | Provision of grievance tracking via SMS alerts, for grievances lodged on the Sebi COMPLAINT REDRESS System (SCORES) | High |
| 3 | Policy | Transaction taxes across products, can be looked at, in order to increase trading volumes in market | Medium |
| 4 | Awareness | Provision for placement of a link directing to grievance lodging portal like SCORES within the Demat Dashboard Websites | High |
| 5 | Awareness | A standard preliminary response to the aggrieved covering the following facets of the The Insolvency And Bankruptcy Code, 2016: “After the costs of insolvency resolution (including any interim finance), secured debt together with workmen dues for the preceding 24 months rank highest in priority. Central and state Government dues stand below the claims of secured creditors, workmen dues, employee dues” | High |



A proposed dashboard, with the Sebi Complaints Redress System (SCORES) link for the Demat account



Case Study On Reforms



RATIONALIZATION OF COMMODITY TRANSACTION TAX (CTT) – ON COMMODITY FUTURES & OPTIONS ON COMMODITY FUTURES*



India's No.1 Commodity Exchange

Under the guidance of the Honourable Prime Minister and Honourable Finance Minister and as clearly spelt out in multiple forums, the priorities for commodity markets are - Making India a 'price setter' in as many commodities as possible, Ensuring wider participation by hedgers – such as farmers, Micro, Small & Medium Enterprises (MSMEs), Bringing back commodity traders from offshore locations to local markets and integrating the physical markets (Spot) with the commodity derivatives markets.

However, Indian commodity markets are yet to achieve the scale that some of their global counterparts have (turnover to GDP ratio at 49% v/s 53% for Malaysia, 198% for China & 239% for US). The key reasons for this low turnover to GDP ratio is generally attributed to 3 factors - Lack of institutional participation such as banks, funds and insurance providers, Lack of variety of products such as options, index and derivatives on intangibles, and High costs of transactions – mainly coming from taxes

SEBI, subsequent to the merger of Forward Markets Commission (FMC) is working towards achieving the first two objectives. The imposition of CTT increased transaction costs by 166 percent leading to a steep fall of 41 percent in the volumes (agricultural commodity futures were exempted). Prior to this, the 'impact cost' in the Indian commodity derivatives was lower or comparable to global benchmark markets like CME. The CTT earned by the exchange in FY 15-16 is around 600 Crores.

The introduction of The Commodities Transaction Tax in the Union Budget 2013-14 led to two major undesired outcomes, namely - driving volumes from Indian exchanges to offshore centers like Dubai & Singapore, and driving volumes from organized markets to parallel economy (dabba trading)

The landmark demonetization decision of the government is widely expected to remove the scope for parallel / dabba markets. Rationalization of CTT would be a logical next step to push for the same outcome. Additionally, the re-introduction of section 88E that provides for deduction of transaction taxes from the tax payable on business profits will also help avoid double taxation. With strong punitive measures taken up by SEBI, incidences of client code modification which led to the earlier withdrawal of benefits, have reduced to few genuine cases removing the fear of tax leakages.

While final design of the Options from SEBI is awaited, the most likely contract will be an "Option on Commodity Futures" – with in the money Options resulting in a position in the underlying futures market. Hence a producer of any commodity, who wants to hedge the price risk, will buy a Put Option – which will allow delivery of goods upon expiry of futures - at the strike price. The likely taxes for the buyer of a put option on a 1 Kg Gold contract with underlying futures value of INR 30 lakh are:

| | |
|--|------------------------------|
| Option Premium (likely value for 1 Kg Gold at the money) | INR 30,000 |
| Securities Transaction Tax (STT) on exercise of option (@0.125 per cent) | INR 3750 |
| CTT since they are now the 'seller' of underlying futures | INR 300 |
| Transaction cost total & as % of premium | INR 4,050 / 13.5% of premium |

The experience in the securities markets is that many Option buyers square up positions and do not exercise the same but in commodities it is required to enable the farmers & manufacturers to be able to deliver their goods. Such a high tax incidence will therefore defeat the very purpose of introducing them.

* The views expressed in the study are those of MCX (sought as a part of stakeholder consultation)

Conclusion



This Grievance Analysis Study analysed 250 grievances of Department of Economic Affairs, spanning across Capital & Commodity markets. Following key systemic reforms have been recommended, implementation of these will make an impact in reducing grievances.

KEY RECOMMENDATIONS

This report evaluates the grievances of Department of Economic Affairs and recommends the following priority systemic reforms:

- 01 Require Brokers (& other entities acting as Trading Members on the behalf of investors), to record and retain trade requests that are made over the phone
- 02 For Grievances lodged on SEBI Complaint Redress System (SCORES), SMS alerts may be sent to the complainant informing of the status of the grievance
- 03 Placement of a link directing to SCORES for lodging grievances, within the Demat Dashboard Websites can be made mandatory
- 04 Enforce a standard preliminary response for grievances revolving around non-payment of wages to workers of a company, declared bankrupt, covering relevant facets of the The Insolvency and Bankruptcy Code, 2016

LIST OF EXPERTS CONSULTED

Table 6: List of experts

| Department of Economic Affairs | Outside Ministry | Quality Council of India |
|---|--|--|
| • Praveen Garg - JS (FM) | • Mrugank Paranjape - Managing Director & CEO at Multi Commodity Exchange of India, (MCX) | • Adil Zainulbhai - Chairman |
| • Shashank Saxena - Adviser (CM) | • Prof. S.G Badrinath - Chairperson, Centre for Financial Markets and Risk Management-IIM.Bangalore | • Dr. Ravi P. Singh - Secretary General |
| • Rosemary K. Abraham - Jt. Director | | |
| • Renuka Mishra - Jt. Director | | |



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