CHAPTER – 4

CAPITAL MARKET
REFORMS:
SECONDARY MARKET
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4.1 Introduction

The second important wing of the capital market is Secondary Market or Stock Market. India has a well established stock market with along history of organised Trading and Securities with over seven thousand listed companies on 23 stock exchanges and having a market capitalisation of over US $ 185 Billion.

Stock exchanges are intricately inter woven in the fabric of a nation's economic life. Without a stock exchange, the savings of the community, the economic progress, and productive efficiency would remain under utilised. The task of mobilizations and allocation of savings could be attempted in the old days by a much less specialised institution than the stock exchanges. But as business and industry expanded and the economy assumed more complex nature, the need for 'Permanent Finance' arose. Entrepreneurs needed it only for long term, whereas investors demanded liquidity i.e. the facility to convert their investments into cash at any given time. The answer was a ready market for investments and this was how the stock exchange came into being.
Stock Market has a symbolic relationship with the modern capitalism and neither of them can survive without the other. In fact a normal stock exchange mirrors the real state of the economy. The movements of stock prices over a period of time reflect the trends in the economy.

The stock market provides a market place for the purchase and sale of securities widening the ownership of business property. The origin of the stock market, therefore, goes back to the time when securities were first issued and made transferable from one person to another. The Indian business scene started to pick up during the later part of the eighteenth century with the advent of East India Company. The business in corporate stock and shares as well as loans picked up both in Bombay and Calcutta during the third decade of the nineteenth century. Apart from the cotton presses, the Commercial Bank, the Chartered Mercantile Bank, the Oriental Bank and the old Bank of Bombay assumed corporate importance in Bombay. In Calcutta, too, the loans and shares of the East India Company and the Bank of Bengal were selling at a respectable premium towards the later half of 1830s.

After 1850, there was a marked improvement in the
communication system because of the extension of railways and development of telegraph technology. As a result, trade and commerce took rapid strides forward. This paved the way for the introduction of the companies Act in 1850 which brought the concept of limited liability for the first time.

In early 1860s, with the outbreak of the American Civil War, cotton exports from India got a big fillip. The resultant creation of wealth and capital paved the way for new ventures. Between 1863-65, 131 new companies were floated, of which 25 were Banks, 69 Financial Association, 7 Land Reclamation Companies and the remaining belonged to the miscellaneous category. The capital drawn into these new ventures was nearly Rs. 30 crores and they fetched a premia of about 38 crores. This is explicitly exhibited in the following Table:

**TABLE : 4.1**

New Company Flotations (1863-65)

<table>
<thead>
<tr>
<th>No. of Companies</th>
<th>Kind of Company</th>
<th>Paid up capital</th>
<th>Market Premia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Cores of Rs.</td>
<td>Crores of Rs.</td>
</tr>
<tr>
<td>25</td>
<td>Banks</td>
<td>13.64</td>
<td>10.94</td>
</tr>
<tr>
<td>69</td>
<td>Financial Association</td>
<td>6.22</td>
<td>4.42</td>
</tr>
<tr>
<td>7</td>
<td>Miscellaneous Cos.</td>
<td>1.56</td>
<td>5.00</td>
</tr>
<tr>
<td>131</td>
<td>Total</td>
<td>29.76</td>
<td>37.92</td>
</tr>
</tbody>
</table>

With the coming up of the Asiatic Banking Corporation in 1863, the speculative activities got the first spark in India, which ended up in not less than a share mania, to be broken up only by the end of American Civil War. It was then realised that the whole wealth amassed during the civil war was nothing more than a mass of unsaleable paper. There was a tremendous slump in the market. A large number of companies failed and very few were left solvent. A special legislation known as the Act XXVIII of 1865 had to be enacted, to combat the mass failure, swiftly and expeditiously. There were certain lasting effects of this severe depression. A regular market for securities was established. Liquid Capital expanded and Bombay became the financial capital of India.

During the share mania of 1864-65, the number of brokers greatly increased and they became possessed of great influence, authority and wealth. At a meeting held in the Broker’s Hall on the 5th day of February, 1887, it was resolved to execute a formal Deed of Association, constitute the first Managing Committee and appoint the first Trustee. The Association is now also known alternatively as “The Stock Exchange”. The Bombay Stock Exchange (BSE), established in 1875, was a legacy of the said philosophy to India and served as a symbol of the capitalist approach in the mixed economy which had a definite tilt.
towards the socialist block in the cold war era. The BSE has continued to expand in size and influence. Apart from being the oldest stock exchange, it is also the trade association in the country. It has come to be known as the best organised and the largest market for either the gilt edged securities or for the new issues of capital. It enjoys pre-eminence as far as turnover, liquidity, price continuity and negotiability are concerned.

Ahmedabad became the next important commercial city during 1880’s as new cotton textile mills floated. The volume of business steadily grew, till in 1894 the brokers formed themselves into an Association under the name and style of “The Ahmedabad share and stock brokers’ Association”.

The stock exchange at Bombay and Ahmedabad were setup as properly organised association at the commencement of the 20th century, but the Calcutta Stock Exchange was not so constituted. Between 1904 and 1908 there was a coal boom in Calcutta and the coal shares registered a phenomenal rise. The spell was broken in 1908 which led to sever depression leading to endless differences and disputes among brokers which ultimately led to communal riot in May, 1908. The need was thus realised that for mutual protection and safety of brokers and the
trade, there should exist an organised body. "The Calcutta Stock Exchange Association" thus came into existence on 15th June 1908. The war and post war boom was followed by a world depression in 1930's. After 1935, there was a rapid increase in the number of textile mills and many new plantation companies were floated. To cater to this expanding trade in plantation and mill shares, a Stock Exchange was organised in Madras on the 4th of September, 1931, under the name of the "Madras Stock Exchange Association (Private) Ltd.".

The Second World War broke out in 1939 which brought with itself a brief boom. As a result, there was a mushroom growth of stock exchanges in Ahmedabad, Lahore, Calcutta, Kanpur, Nagpur, Hyderabad and Bangalore. However, many of the boom-led stock exchanges vanished in the depression which followed the war.

By the end of 1980s, India initiated the era of liberalisation in the financial sector and Indian Capital Markets first came in to the focus of government attention in 1987. These reforms led to strong speculative activities and the stock market experienced an unprecedented boom and then under-developed secondary market was unable to arrest this trend. Thus in the past few years, the emphasis in the Indian Stock Market has
been on reform and modernisation. A very important factor of this has been the setting up of new institutions for the growth and development of the market. The year 1988, in particular, has been a land-mark in the history of Indian Stock Market as it witnessed the setting up of

— Stock Holding Corporation of India Limited (SHCIL)
— The Discount and Finance House of India (DFHI)
— Credit Rating Information Services of India Limited (CRISIL) and
— Securities and Exchange Board of India (SEBI)

This chapter discusses the position of stock market or secondary market in post-1992 period, secondary market reform measures that have been undertaken during the period of 1992-1993 to 2003 and short commings of the Indian Stock Market.

4.2 Secondary Market in Post - 1992 Period

Capital market reforms began in 1992, reflecting two factors, the general climate of reform and government response to the `scam of 1992` (Basu and Dalal, 1993). The reforms almost wholly affected the equity market. The bond market, though surprisingly large for a country of India’s per capita GDP, still reflects many of the pre-1993 problems
and would benefit from reforms similar to those that occurred in the equity market.

Equity market reforms took three approaches: (a) the Securities and Exchange Board of India (SEBI) was given regulatory powers in 1992, including regulation of new issues; (b) a new exchange, the National Stock Exchange (NSE), was created in 1992 and began operation in 1994 competing with the Bombay Stock Exchange; and (c) development of a share depository. In addition, FIIs, beginning in 1992, new mutual fund operators since 1993-4, and Indian firms were allotted to issue global depository rights (GDRs) offshore. These additional resources provided finance for India’s private-sector-led growth in the mid 1990s, and contributed to a stock boom.

SEBI has gradually built up a corpus of regulations. The NSE rapidly attained a much greater volume than the Bombay market, an unprecedented success for a new exchange. Competition from the NSE contributed to substantial reduction in transactions cost, to the point where they are now among the lowest in the world and to substantial reduction in transactions costs, and to substantial increase in transparency and liquidity. This reflected the NSE’s computer-based,
order-matching, which is accessed through a system that the Bombay exchange is also using now. Finally, the depository has eased concerns about counterfeit shares and will eventually improve settlement. Ten stocks, accounting for a substantial part of the exchange volume, are now fully traded through the depository. Reflecting these developments, plus inflows from and trading by FIs, and unprecedented economic growth, the stock market boomed in the mid-1990s, with a large number of new issues.

4.3 Reform Measures Undertaken

After 1990s a number of policy decisions came into force for strengthening the prospectus and performance of Indian Stock Market. Some major reforms so introduced are discussed hereunder.

4.3.1 Constitution of Governing/Management Councils and Statutory Committee

The India Stock Exchanges were controlled and managed earlier exclusively by the brokers who owned the same. The brokers used to constitute Management Council/Board of Directors. It created conflict of interest and also failed to protect the interest of Investors. To this end, and reducing the dominance of Stock Brokers on the Council of
Managements, the SEBI advised them to reconstitute the Governing Councils to provide for at least 50% non-broker's representation. Now 50% of the Directors are SEBI nominated and appointed as SEBI Directors and Public Representative Directors. Similarly, in constituting Statutory Committees viz.,

i) Arbitration Committee,

ii) Disciplinary Committee, and

iii) Defaults Committee

60% of its members will be non-elected form different professional fields, i.e. Management, Legal and Accounting.

Further, no office-bearer of the Stock Exchange, i.e. President and Vice President can continue in office continuously for more than two terms. Thereafter, there has to be a compulsory cooling period of one year. Similarly, no elected Director can continue on the Governing Council of the Stock Exchange continuously for more than two terms. Thereafter, there has to be a compulsory gap, i.e. cooling period of two years during which such a member can not be elected as a Director on the Governing Council.
4.3.2 Screen Based Trading

In the Indian Stock Market, there was an outcry system of trading where brokers used to assemble on the trading floor for buying and selling of securities. This system was not transparent as it lacked (Real Time base) and was also having chances of manipulations in pricing and settlement process. In short, the outcry system was time consuming and inefficient. The Securities and Exchange Board of India (SEBI) issued time bound directives to all Stock Exchanges to introduce Screen Based Trading System. The B.S.E. was the first Stock Exchange who took steps in this direction. On Line Fully Automated Screen Based, Trading System (SBTS), where a member can punch into Computer quantities of securities and prices and the transaction is executed as soon as it finds a matching sale or buy order from a counter-party.

As on today, all the 23 Stock Exchanges of India are fully automated and computerised. It has increased the efficiency and transparency both in the trading system. It has proved to be a boon for the brokers as well as for the large number of investors in the country. Today, Indian Stock Exchanges can boast that almost 100% of trades in securities take place through Electronic Order Matching.
4.3.3 Establishment of Depositories

In the Physical System of transfer of Securities and its settlement, there were many problems and deficiencies. The trades were settled by physical movement of papers which was a time-consuming process. The system of transfer of securities was grossly inefficient and full of risk. Theft, forgery, mutilation of certificates and many other irregularities were rampant, and in addition, the issuer had the right to refuse the transfer of securities.

To overcome the above difficulties and obviate the problems, the Depositories Act, 1996 was passed to provide for the establishment of Depository in Securities. Its main objective was to ensure free transferability of securities with speed, accuracy and security by:

(a) making securities of Public Limited Companies, freely transferable subject to certain exceptions;

(b) dematerialising the securities in the depository mode;

(c) providing for maintenance of ownership records in book entry form.
Accordingly, two depositories, viz. National Securities Depository Limited (NSDL), and Central Depository Services (India) Limited (CDSL), have been established to provide instantaneous Electronic Transfer of Securities.

At the end of June, 2001, 39948 million securities worth Rs. 3265 billion have been dematerialised with NSDL. The market capitalisation of the companies that have joined NSDL has reached Rs. 5398 billion at the end of June 2001. 202 depository participants are rendering depository services at 2639 locations who have opened beneficial accounts with NSDL. The securities of 3154 Companies are available for D-mat trading. In CDL, the number of Companies for which trades will be settled compulsory in D-mat mode by all classes of Investors is currently around 3200. The BSE has also made it compulsory for settling of trades in the D-mat form for all A, B and B2 Group Companies.

4.3.4 Trading in Derivatives

To assist market participants to manage risk through hedging, speculation and arbitrage, SCRA was amended in 1995 to lift the ban on options in securities. On 11th May, 1998, the Governing Board of SEBI
approved Dr. L.C. Gupta Committee report on "Derivatives Trading". It was decided that SEBI will allow Derivatives trading in Phased Manner beginning with Index Futures. The absence of derivatives trading deprived investors on the most effective and cost efficient tool for Management of Investment Risk. Thus, there was no system by which Investors could insulate themselves from systematic risk.

Then there was a problem in starting trading in Derivatives because the term "securities" in the SCRA did not include the term "Derivatives". The SCRA was thus further amended in December 1999 to expand the definition of Securities to include Derivatives. The ban on forward trading, which was hindering introduction of trading in Derivative was ultimately withdrawn. The Derivatives trading started on B.S.E. and the National Stock Exchange in June 2000. The Indian market now offers trading facilities in all the following four forms of Derivatives:

(i) Stock Index Futures.

(ii) Stock Index Options.

(iii) Options in Individual Stocks.

(iv) Futures in Individual Stocks.
The above Derivatives have a period of one month, two months and three months for trading purposes. Two important indices, i.e. SENSEX of BSE and S&P CNX NIFTY of NSE are being used for this purpose. Trading of options and futures have been permitted in 31 selected stocks to start with. The Derivatives Segment requires certain conditions to be fulfilled by Stock Brokers for making use of trading in derivatives. It is now felt that trading in Derivatives will become popular amongst the Stock Brokers and the investors in the years to come.

4.3.5 Investor Protection

In the Stock Exchanges it has been made compulsory to constitute an Investors Services Cell for redressal of Investors Grievances. Similarly, an “Investors’ Protection Fund” has also been got constituted in all the Stock Exchanges. In case a defaulter members fails to pay his client/investor, then subject to certain condition a sum upto a maximum of Rs. 50,000 can be paid by the stock exchanges out of this fund to the investor. The Department of Company Affairs has also set-up an “Investors’ Education and Protection Fund” for the promotion of Investor’s awareness and protection of their interest.
4.3.6 Globalisation of Indian Securities Market

In view of the globalisation and the policy of liberalisation, the Indian Securities market is getting increasingly integrated with the world market. The Indian Companies have been permitted to raise funds from abroad through issue of Global Depository Receipts (GDRs), Foreign Currency Convertible Bonds (FCCBs). GDRs will have two-way fungibility. Further the Indian Companies have also been permitted to list their securities on foreign Stock Exchanges by sponsoring ADR/GDR issues. Foreign Institutional Investors (FIIs) have been permitted to invest in all types of securities. The Investment by FIIs, enjoys full capital account convertibility. They can invest in a company under the portfolio investment route upto 24% of the paid up capital of the company. Now NRI’s can also invest in Indian Companies.

4.3.7 Corporate Governance

Corporate Governance deals with the laws, procedures, practices and implicit rules and determines a company’s ability to take Managerial decisions vis-a-vis its claimants in particular, its shareholders, creditors, clients, the state, finite employees. The concept of Corporate Governance has assumed great significance in India in the
recent past. Even though the Companies Act provided a framework for corporate governance, defines the powers, duties and responsibilities of the Board, punishment for transgression of law there was a need for a comprehensive code of Corporate Governance. Now there is a global consensus about the objective of good Corporate Governance.

Keeping the above in view, Securities and Exchange Board of India appointed Kumar Manglam Birla Committee on Corporate Governance. The draft of the above Committee was accepted by SEBI in its Board Meeting on 25.1.2000. Then the Kumar Manglam Committee Report on Corporate Governance was accepted in toto. The corporate governance code was made applicable to “A” Category Scrips of BSE, which were allowed for trading from March, 31, 2001. It was to apply in other scrips within a three year time frame. The recommendations become applicable to such companies being listed for the first time, with immediate effect. In other words, all companies going for listing, irrespective of their size will need to comply with the requirement.

The Securities and Exchange Board of India has got the Listing Agreement of Stock Exchanges to include the provisions of corporate Governance in Clause 43 by all the stock exchanges compulsorily. Now
it is the duty of the Stock Exchanges to take follow up action for necessary compliance by the listed companies in terms of above clause.

4.3.8 End of Carry Forward System and Introduction of Rolling System of Trading

The Securities and Exchange Board of India banned the Carry Forward System (BADLA) of trading in the Indian Stock Exchanges w.e.f. 2nd July, 2001. It has also decided that all scrips which were included in the Automated Lending and Borrowing Mechanism or Modified Carry Forward System (ALBM) or (MCFS) in any Stock Exchange for trading purposes will be traded only in the Compulsory Rolling Settlement from July 2, 2001. Thus the facility for trading through deferral products have now been banned together.

In the rolling system there is no scope for non-settlement, i.e. delivery or payment of net outstanding positions on daily basis. The present rolling system is based on T+2. It means to convey the idea that settlement takes place 2 days after ‘T’ the date of which Trading took place. A system of margining and risk management has also been prescribed so that the system works smoothly. After the introduction of rolling settlement, now there is no scope of blank/short selling or
non-payment through carry over system. The following are the some other reform measures that have been undertaken during the period of 1992-93 to 2003:

(i) SEBI introduced regulations governing substantial acquisition of shares and take covers and lays down conditions under which disclosures and mandatory public offers are to be made to shareholders.

(ii) ‘Renewal’ of transactions in ‘B’ group securities prohibited, so that transactions can be settled within 7 days.

(iii) Private mutual funds permitted and several have already been set up. All mutual funds allowed to apply for firm allotment in public issues.

(iv) UTI brought under the regulatory jurisdiction of SEBI.

(v) Fresh guidelines for advertising by mutual funds issued and the requirement of preventing of advertisements removed.

(vi) To improve the scope of investments by mutual funds, mutual funds permitted to underwrite public issues and guidelines for investment in money market instruments relaxed.
(vii) The procedure for lodgement of securities for transfer was considerably eased for institutions through the introduction of 'jumbo' transfer deeds and consolidated payment of stamp duty.

(viii) Stock exchanges would be allowed to introduce carry forward system only with the prior permission of SEBI and subject to effective monitoring and surveillance system, and infrastructure.

(ix) The financiers funding the carry forward transactions being lenders for funds will not be permitted to secure up their positions till repayment of the loan.

(x) The carry forward position shall be disclosed to the market scripwise and brokerwise by the stock exchanges at the beginning of the carry forward session.

(xi) Capital adequacy norms of 3 per cent for individual members and 6 percent for corporated members in the their outstanding positions announced.

(xii) Those suggested by Patel Committee replaced graded margins of 20 percent to 50 percent on carry forward
transactions. Members doing financing of carry forward transactions will be subject to a cap of Rs. 10 Crores.

(xiii) The Ordinance proposed to make consequential changes in legislations like the Companies Act, Income Tax Act, SCRA, the Stamp Act etc. It provides for detailed regulations to be framed by SEBI as well as detailed bye-laws to be framed by depositories with the approval of SEBI.

(xiv) Custodians of securities existing for a considerable period and engaged in providing services to a number of institutional investors can reach the required minimum net worth of Rs. 50 crore in a phased manner over a period of 5 years.

(xv) Custodians required by SEBI to appoint a Compliance Officer who will interact with the SEBI regarding compliance and reporting issues.

(xvi) SEBI will have monthly meetings with the Association of Custodial Agencies of India (ACAI) before incorporating any changes that have an impact on settlement of transactions of institutional investors.

(xvii) Stock exchanges asked to modify the listing agreement to
provide for payment of interest by companies to investors from the 30th day after the closure of a public issue.

(xviii) Uniform good-bad delivery norms and procedure for time bound resolution of bad deliveries through Bad Delivery Cells prescribed. Bad Delivery Cell procedure had helped to standardise norms.

(xix) All exchanges to institute the buy-in or auction procedure being followed by the National Stock Exchange.

(xx) In view of the falling percentage of deliveries, exchanges asked to collect 100 per cent daily margins on the national loss of a broker for every scrip, to restrict gross traded value to 33.33 times the brokers base minimum capital and to impose quarterly margins on the basis of concentration ratios.

(xxi) Study group constituted to make recommendations for imparting greater transparency and fairness in bulk or negotiated deals.

(xxii) Stock exchanges asked to set up a clearing house or clearing corporation.
(vii) The Stock Exchange Member and other exchanges within the country shall be given powers to expand their trading terminals and also to provide on-stock exchange contracts to other participants for understanding with the main stock exchange. The setting up of trade guarantee schemes and clearing corporation mechanisms for maintaining contract compliance arising from other centres and adequate monitoring mechanisms will be a great asset.

(viii) A line these conditions, a clearing house or the clearing corporation has to be set up. It should be made accessible to all the clearing members in respect to the above-mentioned requirements.
A stock lending scheme has been introduced. Stock lending has been approved in which short sellers could borrow securities through an intermediary before making such sales. The approved intermediary should have a minimum net worth of Rs. 50 crore.

Risk Management was further strengthened during the year 1997-1998 by implementing a comprehensive system of margins, exposure limits and improving the efficiency of clearing and settlement systems through the introduction of settlement guarantee funds.

With a view to enhancing market safety, SEBI fixed intra-day trading and gross exposure limits for brokers.

SEBI continued to maintain a constant interface with the stock exchange on various issues concerning investor projection automated market infrastructure and overall improvement in quality of intermediation.

Automated screen based trading which was introduced in the country through the setting up of the OTCEI and NSE and
subsequently introduced by the BSE had brought about a qualitative improvement in the market and its transparency.

(xxxiii) Transaction costs and time were also significantly reduced.

(xxxiv) During the year 1997-98 several of the smaller exchange also introduced on-line screen based trading bringing the total number of exchanges having this facility to 20 as against 22 stock exchanges in the country.

(xxxv) Lack of sustained buoyancy in the secondary market has contributed to the poor investor interest in the primary market. Measures taken by the Government as well as SEBI in regard to buy-back of shares have therefore been designed to boost investor interest in the share market. Other measures aimed at raising the level of investor confidence in the secondary market include amendment of SEBI Takeover Regulations, extension of demit trading to more scrips, introduction of rolling settlement in the demit segment, more stringent disclosure requirements, and stipulation of additional margin requirements, aimed at curbing excess volatility in share prices. Several initiatives have been taken by SEBI to
promote dematerialised or paperless trading. risk of bad delivery and take or forged shares. SEBI introduced compulsory trading of shares in dematerialised from in specified scrips by institutional investors (FIIs, Mutual Funds, Banks and Financial Institutions) with effect from January 15, 1998.

(xxxvi) The most notable development concerning the secondary segment of the Indian capital market in the financial year 2000-2001 was the introduction of derivatives trading in June 2000. SEBI approved derivatives trading based on Futures Contracts at both BSE and NSE in accordance with the rules/byelaws and regulations of the Stock Exchange. While derivatives trading based on the Sensitive Index (Sensex) commenced at the BSE on June 9, 2000 derivatives trading based on S&P CNX Nifty commenced at the NSE on June 12, 2000.

(xxxvii) In keeping with international best practice, SEBI introduced compulsory rolling settlement in ten select scrips on January 10, 2000. All the ten select scrips featured in the compulsory
demat list and had a daily turnover of Rs. one crore or more. Though 153 more scrips have since been added to the list, none of them enjoys carry forward trading facility.

(***viii***) The SEBI extended compulsory rolling settlement on T+5 basis to 414 scrips from July 2, 2001 and advised the stock exchanges to introduced uniform settlement cycle (Monday to Friday) in respect of remaining securities. Rolling settlement on T+5 bases was extended to all scrips with effect from January 2, 2002. The settlement cycle was shortened to T+3 effective April, 2002. This brings the securities settlement system in India at par with international standards, in line with the recommendation of the Report of the joint task force of the Committee on payments and settlement systems (CPSS) and the international Organisa­tion of Securities Commission (IOSCO) on securities settlement systems.

(***ix***) Other reforms initiated by the SEBI included banning of all deferral products, including badla; introduction of a market wide circuit breaker system applicable at three stages of the
index movements and introduction of 99 per cent value-at-risk (VAR) based margin system for all scrips in the compulsory rolling settlement with effect from July 2, 2001.

The Stock exchanges, accordingly commenced trading in index options in June 2001, followed by options on select securities in July 2001 and futures on select securities in November 2001. The FIs were also permitted to trade in all exchange traded derivative contracts subject to position limits effective February 2002.

The SEBI introduced compulsory rolling settlement on a T+3 basis effective April 1, 2002. The settlement cycle was further shortened to T+2 basis effective April 1, 2003 with a view to reducing risks in the market and protecting the interest of investors, in line with the international best practices.

The SEBI accepted the recommendations of the Group on Corporatisation and Demutualisation of Stock Exchanges which recommended, inter alia, a uniform model of corporatisation in and demutualisation to be adopted for all stock exchanges.
With the issue of the SEBI (Central Listing Authority) Regulations, 2003 and formation of Central Listing Authority (CLA), companies are now required to obtain recommendation from the CLA prior to their listing in stock exchanges.

(****iii) With a view to developing the derivatives market further, interest rate derivative were introduced on National Stock Exchange (NSE) with effect from June 24, 2003.

(****iv) In order to enable the retail investors to participate in trading in government securities, the screen-based retail trading in government securities was launched on January 16, 2003.

4.4 Shortcomings of the Indian Stock Market vis-a-vis the Current Market Slump

Today, the potential of Indian Stock Market is tremendous but presently the shortcomings are also sizeable. The obvious lacunae are lack of trading rules, inefficient floating stock and liquidity, inadequate transparency, dominance of finance institutions, non-development of secondary market, kerb trading, speculative trading and absence of
support services, which are all hindrances in the smooth functioning of
the stock market.

Following are some of the shortcomings in the present
functioning of the stock markets in India:

(i) Lack of transparency of transactions is today a major
shortcoming of our markets. The investors are not fully
exposed to know the actual rate of the transactions.

(ii) In an overwhelming majority of quoted shares there is no
worthwhile liquidity/marketability.

(iii) Indian Capital Market can be termed more or less as an
equity market, there does not exist any well defined market
either for debt instruments or for odd lots.

(iv) The problem with the domestic market is that it continues to
respond more to sentiment than to fundamentals. Uncertainty,
especially political and structural, is neither understood nor
tolerated by market.

(v) Stock brokers are too much speculative in nature and
tantamount to sheer gambling differences where no genuine
deliveries to share are given.

(vi) Lack of responsibilities and undue delay in effecting transfer of shares by companies make the market more and more liquid.

(vii) There are frequent complaints against the listed companies like: non-receipt of refund orders, allotment advice, share certificates, bonus shares, right-issues, debentures & bond certificates.

(viii) Lack of diversity in the financial instruments.

(ix) Existence of unofficial trading in the Primary Markets, prior to the issue coming in the markets.

(x) Passive role of public financial institutions.

The information furnished by the companies in their prospectuses are manipulated in order to make their projections look better. There are mushroom growth of Merchant Bankers but the awareness of responsibility towards investors seem to be lacking as far as the matter of disclosure, pricing and post-issue work are concerned.