CHAPTER - II

WORKINGS OF STOCK EXCHANGES IN INDIA

2.1 Introduction
2.2 Early History of the Stock Exchanges in India
2.3 Development of Stock Exchange in India
2.4 Organisation of Indian Stock Exchanges
2.5 Member of the Stock Exchange
2.6 Management of Stock Exchange
2.7 Regulation of Stock Exchanges in India
2.8 Capital Issues Control Act 1947
2.9 Role of Stock Exchanges
2.10 Services of Stock Exchanges
2.11 Listing of Securities
2.12 Security Exchange Board of India - Its Origin and Functions
2.13 Establishment and Incorporation of Board
2.14 Management of the Board
2.15 Meeting of the Board
2.16 Returns and Report of the Board
2.17 Powers Delegated to SEBI Under Securities
2.18 Contracts (Regulation) Act 1956
2.19 SEBI Guidelines for Market Makers
2.20 Current Status of SEBI
2.21 Summary
2.1 Introduction

Finance is the life blood of any business. Every growing concern needs finance for extension and development. Well established companies are in a position to finance their operations, out of the retained earnings or accumulated profits. But new enterprises depend only on external sources to procure the necessary finance for its development. Sometimes, established companies depend upon external sources when their accumulated profits are not sufficient for its expansion and development.

Finance is necessary for many activities which include smooth running of business to meet the working capital requirements, and the promotional expenses, purchase of fixed assets, expansion of business at large scale and the like.

Similarly, there are numerous sources through which a business concern can procure finance. In case of a sole proprietary concern, the main source of finance is the proprietor's contribution. In case of partnership firm, the various partners jointly contribute the funds. Whereas in joint stock companies the requirement of finance may be mobilised through various available forms of sources because these types of organisations need more and huge excessive funds.

According to the length of the period for which funds are required, the sources of raising finance may be in the form of long-term, medium term and or short-term sources. The long term sources are required to invest in fixed
Assets like Land and Building, Plant and Machinery and for expansion programmes. The sources of long-term finance include issue or sale of shares, sale of Debentures, finance from Financial institutions, retained earnings, lease finance and the like.

The medium-term finance is required to invest in working-capital and for repayment of assets. It is raised for a period ranging above one year but less than ten years. The sources for raising medium-term funds include issue of redeemable Debentures, financial institutions including Commercial Banks, Public Deposits and the like.

The short-term finance is required for meeting the short-term finance of the company a period of which is less than 12 months. The purpose of raising these funds are to purchase Raw-materials, maintaining the finished goods maintaining the loose tools and spare parts, extending credit to customers, meeting day-to-day administrative and other expenses and the like. Sources of short-term finance include borrowing from Commercial Banks, Trade Credit, Instalment Credit, Customer Credit Accounts Receivable, Financing and the like.

In order to mobilize the above mentioned capital, each and every organisations in India approach the public by way of issuing different types of securities. As per the regulations prescribed by the Securities Exchange Board of India, each company's prospectus should contain all the relevant
informations in detail. But in many cases, the issuing company is not providing the sufficient information to the public. During the issue operation too, many intermediaries are involved.

The success or failure of the appropriate investment of the investors are assessed only after the listing of the shares in different stock exchanges. In India, there are 23 Recognised Stock Exchanges which are operating continuously for the benefits of the investors.¹ Out of these 23 Stock Exchanges, the Bombay Stock Exchange is considered to be a premier one. Therefore the majority of the Indian companies are interested to list their securities in the Bombay Stock-Exchange and National Stock-Exchange.

The latest trend available indicates that nearly 70 percent of total value of the securities traded in India are in Bombay Stock Exchange.² But now it is dominated by National Stock Exchange of India. Out of which, majority of the value is contributed by specified shares. It indicates the importance of the Bombay Stock Exchange in the securities trading business in India.

An investor is one who invest his savings in a company by the way of buying its securities. He cannot get back the amount from the company directly. The capital invested in the stock and shares of a company may be

¹Compendium of Capital Issues, SEBI & Listing. Chapter-II p.1169, issued by SEBI.
realised by its owner only through the sale of these stock and shares through the stock exchanges.

Stock Exchange is an organised market for the purchase and sale of second-hand listed securities of public companies, government securities, bonds and debentures issued by a municipal and port trust. It is the place where one who wants to buy a particular security may find an immediate seller. One who wants to sell his holdings may find a buyer at a reasonable and fair price. The stock exchange in India is more than a century old. At present there are 23 stock exchanges in India recognised by the Government under the securities contract (Regulation) Act, 1956.³ These recognised stock exchanges are operated under the rules, bye-laws and regulations approved by the Government. They constitute an organised capital market for securities issued by the Central and State Government, public bodies and joint stock companies.

For the existence of the capitalist system of economy and for the smooth functioning of the company form of organisation, the stock exchange is a vital institution. In this context, the present chapter highlights the various functions and the role of both stock exchanges and the Security Exchange Board of India in detail.

³Compendium of Capital Issues, SEBI and Listing Chapter 11, p.1169.
2.2 Early History of the Stock Exchanges in India

The earliest record of security dealings in India is meagre. The East Indian Company was the dominant institution in those days. In 1835's there was a perceptible increase in the volume of business, not only in loans but also in corporate shares and stocks. In Bombay, between 1840 and 1850 there were half a dozen brokers recognised by the banks and merchants.\(^4\)

The Companies Act is introduced for limited liability. It was enacted and it commenced the era of modern joint stock enterprise in India. A rapid development of commercial enterprises, through the extension of Railways, introduction of Telegraphs and the gradual improvement in the system of communication promoted internal trade.

Brokerage business attracted many persons in this field and the number of brokers increased. Premchand Roychand was the first broker\(^5\) who could speak and write English. Within seven years, he nearly monopolised the broking business in shares, stocks, bullion and partly exchange and gathered all the strings in his hand. He was popularly known as `Napoleon of finance". He directed his financial genius to other pursuits and manifold activities.

2.2.1 Share Mania of 1861-'65

The American Civil War (1860-'61), resulted in the share mania of 1861-'65. During which the number of brokers increased about 200-250 and


they become possessed of great influence, authority and wealth. Like the south sea bubble and the Tulipmania of Europe the share mania caused undesired desolation at the end of the American Civil War. The depression was long and severe but the share mania had certain lasting effects.

2.3 Development of Stock Exchange in India

During the share mania of 1861-'65, the number of brokers greatly increased and they become possessed of great influence, authority and wealth. In Bombay, Brokers meeting place was under the wide spreading banyan trees infront of the Town Hall at the cotton green where the Horniman circle is now situated. At the end of the American Civil War, the brokers decreased in number and prosperity.

Brokers have to shift from place to place, and wherever they went, they overflowed into the streets, that is now appropriately called DALAL STREET after their name, they found a place where they could conveniently assemble, meet and do their business.

It was in those troubled times between 1868 and 1875 that brokers organised an informal association and finally, as recited in the indenture constituting the Articles of Association of the Exchange. "On 9th July, 1875, a few native brokers were doing brokerage business in shares and stocks

---

resolved upon forming in Bombay an association for protecting the character, status and interest of native share and stock brokers and of providing a hall for the use of the members of such Association.\(^7\)

At a meeting held in Broker's Hall, it was resolved to execute a formal deed of association, to constitute the first managing committee and appoint the first trustee. Accordingly, an indenture was executed constituting the Articles of Association of the Exchange and the stock exchange was thus formally established in Bombay as a society to be called "the Native Share and Stocks Brokers Association."\(^8\) This Association is now alternatively known as "The Stock Exchange".

When the Exchange was constituted in 1875, the entrance fees for new members were Re.1 and there were 318 members on the list. The number of members increased to 333 in 1896, 362 in 1916 and 478 in 1920. The entrance fee was raised to Rs.5 in 1877, Rs.1000 in 1896, Rs.2,500 in 1916 and Rs.48000 in 1920.\(^9\) At present, there are 620 members and they have the right of nomination, that is, they are entitled to transfer their right of membership with the approval of the Governing Board.

---

\(^7\)The Stock Exchange Official Directory 9(i) vol.2, p.4.

\(^8\)The Stock Exchange Official Directory 9(i) vol.2, p.4.

As the Exchange grew in size, so did its accommodation. The premises taken in 1874 in Dalal Street on a rent of Rs.130 per month were given up when what is now known as the stock-exchange old building situated at Dalal Street was acquired for Rs.97,000 in 1875. In the central court-yard of these premises and in what is now the Brokers' Hall flourished two sturdy peepal trees, which still survive. The Brokers' Hall was thrown open on the 18th of January 1899, by Mr. James M. Maclean M.P.

The Stock Exchange at Bombay has continued to expand in size and grow in its stature and influence. It is not only the oldest Stock Exchange but also the oldest trade Association in the country. Among the twenty three Stock Exchanges recognised by the Government of India, it was the first one to be recognised with the privilege of permanent recognition.

The Primary Stock Exchange at Bombay is placed it at the heart of the capital market. The exchange thus helps materially to make Bombay "the chief centre of the money and capital markets" and "the financial capital of India".

**2.3.1 The Bombay Securities Contract Control Act, 1925**

A special legislation for controlling stock exchange was enacted for the first time in India, when the Bombay Securities Contract Control Act 1925,

---


was passed by the Bombay legislative Assembly on the 29\textsuperscript{th} of October, 1925. It came into force in Bombay from the first January, 1926.\textsuperscript{13} The Act empowered the Government to grant recognition to a Stock Exchange and to withdraw such recognition granted.

The Bombay Exchange applied for recognition under the Act and submitted a complete set of rules and regulations for Government's approval. The exchange was duly granted statutory recognition and its rules were sanctioned by the Government on the 14\textsuperscript{th} of May 1927. The Bombay Securities Contracts Control Act remained inforce till the securities contracts (Regulation) Act, 1956, enacted by the Central Government came into operation on the 20\textsuperscript{th} of February, 1957.\textsuperscript{14}

2.3.2 The Bombay Forward Contracts Control Act 1947

The defects of the Bombay Securities Contracts Control Act were rectified in a Bill. The Bill aimed at uniform control of all forward markets in Bombay. The Bombay Forward Contract Control Act, 1947, was applied to cotton, bullion and seeds. Its operation was not extended to stocks and shares because of objections raised by the Bombay Exchange.

\textsuperscript{13}The Stock Exchange Official Directory 9(ii) vol.2, p.2.

\textsuperscript{14}The Stock Exchange Official Directory 9(ii) vol.2, p.2.
Subsequently, under the new constitution of India which came into force in 1950, future markets and stock-exchanges became exclusively a union subject. In due course, appropriate central legislation, based largely on the original principles of the Bombay Forward Contracts Control Act, 1947, was enacted for commodity markets in 1952, and for Stock Exchanges in 1956.\textsuperscript{15}

2.3.3 Foundation of the Ahmedabad Share and Stock Brokers' Association

The cotton textile industries which established the primacy of Bombay also contributed to the development of Ahmedabad as the next important city in the Bombay presidency. A number of cotton textile industries were set up in Ahmedabad and it rapidly forged ahead. Soon the need arose for trading in the shares of those units which were incorporated as joint stock companies. The businessmen of Ahmedabad had inherited a tradition for dealings in stock and shares.

Accordingly as and when new cotton textile mills were started, Ahmedabad brokers canvased subscriptions for the capital issues of those new companies, and in return were remunerated by commission in the managing agency shares of the companies. The volume of business steadily grew, the

brokers formed themselves into an Association under the name and style of "The Ahmedabad Shares and Stock Brokers' Association".

The Ahmedabad Exchange was organised as a voluntary non-profit making association with a Trust-Deed. It followed the Bombay rules and practices. The Ahmedabad Market concentrated its business in the shares of local textile mills.

2.3.4 The Swadeshi Movement

In the beginning of the 20th century, there was a revolution in Industry, Transport and Communications. The Swadeshi movement let loose a great wave of industrial enthusiasm in the country. An important stage in industrial advancement under Indian enterprise was reached with the inauguration of the Tata Iron & Steel Company Ltd., in 1907. These developments were important in the industrial progress to come and of the part to be played by the stock-exchanges.

2.3.5 Foundation of the Calcutta Stock Exchange Association

An association was formed by some leading brokers on 15th June 1908 under the name and style as "Calcutta Stock Exchange Association". The stock exchange at Bombay and Ahmedabad were well set up and properly organised associations at the commencement of the 20th century. But the Calcutta stock exchange was not so constituted. The fact that stock business in an organised way had been existing since 1830 at Bombay and Ahmedabad.
2.3.6 Foundation of the Madras Stock Exchange Ltd.

A new stock exchange was organised under the name and style as "Madras Stock Exchange Ltd." (MSE) the pioneer in South India, was first formed in April 1920. Many people took to the share broking business. Subsequently, as the activity broadened the persons transacting and involved in securities business felt that there should be an association to monitor, control and regulate the functions had resulted in the formation of Madras Stock Exchange Association in August 1937 and was inaugurated on 4th September 1937 by Sir William Wright, the then Managing Director of EID Parry Co. Ltd.

Madras Stock Exchange has about 1750 listed companies as on date which is 5th highest among all stock exchanges in the country and it has 172 members on its rolls. Madras stock exchange was witnessing hectic activity, both in terms of trading volume and listing of companies, until the advent of National Stock Exchange in the mid.90's.

Madras Stock Exchange was reorganised as a new company limited by guarantee under the name and style of the Madras Stock Exchange Ltd., on 29th April, 1957 and in May 1961 it acquired a building of its own at a cost of Rs.2,10,000.\textsuperscript{16} Its activities are steadily expanding and companies covering all types of industries, including banks and insurance companies, are on its trading list.

### 2.3.7 Status of Stock Exchanges during the World War Periods

On the eve of the First World War, the stock market in India consisted of the three stock exchange at Bombay, Calcutta and Ahmedabad. The import of manufactures flow into India had stopped almost completely and a boom ensured in all industrial enterprises. Mills, factories and workshops worked round the clock fabulous profits were earned and large dividends were declared. Wealth accumulated and the volume of money increased and the stock-exchanges "soon became the centre of attraction for all".

The second world war touched-off a brief sharp boom which was followed by a slump. The situation changed radically in 1943. When India was fully mobilised as a supply base prosperity was rapidly increasing, inflationary finance expanded, money became cheaper and paper wealth multiplied. This was the time boom brought unprecedented prosperity to the stock-exchange. Many new Associations were constituted, and the organisation of stock exchange in all parts of the country assumed crazy proportions.

### 2.3.8 Boom-mushroom Stock Exchanges

In 1936, Punjab Stock Exchange Ltd., was established. In 1947, the Delhi Stock Exchange Association Ltd., was established. Two more stock exchange were also formed. The U.P. Stock Exchange Ltd., was incorporated in Cawnpore in 1940 and the Nagpur Stock Exchange Ltd., was organised in Nagpur. In Indian states the Hyderabad Stock Exchange Ltd. was incorporated
in Hyderabad in 1944 as a company limited by guarantee and recognised under the Hyderabad Securities Contract Control Act.


2.4 Organisation of Indian Stock Exchanges

Articles of Association defining the constitution of the recognised Stock Exchanges are approved by the Central Government. There is a broad uniformity in their organisation. The recognised Stock Exchanges in India vary

from voluntary non-profit making organisation to joint stock companies limited by shares and companies limited by guarantee.

Bombay, Ahmedabad and Indore Stock Exchanges are non profit making organisation. Calcutta, Delhi and Bangalore Stock Exchanges are joint Stock Companies Limited by shares. Madras and Hyderabad Exchanges are companies limited by guarantee. Bombay Stock Exchange was the first permanent recognised stock exchange followed by Calcutta, Delhi, Madras, Hyderabad, Ahmedabad, Indore and Bangalore. The other exchanges were given in the first instance, official recognition for a period of five years and at the end of each term the recognition has been renewed for a like period.

As per the present guidelines the proposed region in which the Stock Exchanges to be setup must be industrially developed with a sizable number of industrial units and should be able to attract at least 50 companies independently. At present, there are 23 recognised Stock Exchanges in India. The table 3.1 gives the list of recognised Stock Exchanges in India.

---

18 Prof. V.K.Bhalla Investment Management 1995, S.Chand & Company Ltd., New Delhi 100 055.
Table 2.1
List of Recognised Stock Exchanges in India

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the Stock Exchange</th>
<th>Year of Establishment</th>
<th>No. of member</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bombay</td>
<td>1875</td>
<td>555</td>
</tr>
<tr>
<td>2.</td>
<td>Ahmedabad</td>
<td>1894</td>
<td>299</td>
</tr>
<tr>
<td>3.</td>
<td>Calcutta</td>
<td>1908</td>
<td>650</td>
</tr>
<tr>
<td>4.</td>
<td>Indore</td>
<td>1930</td>
<td>108</td>
</tr>
<tr>
<td>5.</td>
<td>Madras</td>
<td>1937</td>
<td>168</td>
</tr>
<tr>
<td>6.</td>
<td>Hyderabad</td>
<td>1943</td>
<td>85</td>
</tr>
<tr>
<td>7.</td>
<td>Delhi</td>
<td>1947</td>
<td>124</td>
</tr>
<tr>
<td>8.</td>
<td>Bangalore</td>
<td>1957</td>
<td>123</td>
</tr>
<tr>
<td>9.</td>
<td>Cochin</td>
<td>1978</td>
<td>476</td>
</tr>
<tr>
<td>10.</td>
<td>Pune</td>
<td>1982</td>
<td>69</td>
</tr>
<tr>
<td>11.</td>
<td>Kanpur</td>
<td>1982</td>
<td>445</td>
</tr>
<tr>
<td>12.</td>
<td>Ludhiana</td>
<td>1983</td>
<td>220</td>
</tr>
<tr>
<td>13.</td>
<td>Guwahati</td>
<td>1984</td>
<td>180</td>
</tr>
<tr>
<td>14.</td>
<td>Jaipur</td>
<td>1984</td>
<td>500</td>
</tr>
<tr>
<td>15.</td>
<td>Mangalore</td>
<td>1985</td>
<td>68</td>
</tr>
<tr>
<td>16.</td>
<td>Patna</td>
<td>1986</td>
<td>189</td>
</tr>
<tr>
<td>17.</td>
<td>Rajkot</td>
<td>1989</td>
<td>300</td>
</tr>
<tr>
<td>18.</td>
<td>OTC Exchange of India</td>
<td>1989</td>
<td>N.A.</td>
</tr>
<tr>
<td>20.</td>
<td>Baroda</td>
<td>1990</td>
<td>N.A.</td>
</tr>
<tr>
<td>22.</td>
<td>Meerut</td>
<td>1991</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

N.A. - Non-Available

Source: [www.namasthenri.com/ipo/stockaddress.htm](http://www.namasthenri.com/ipo/stockaddress.htm)

It is clear from the Table 2.1 that there are 23 Stock Exchanges in India, out of which only two exchanges namely Bombay Stock Exchange of India and National Stock Exchange of India are actively participating in the Indian Capital market operations.
2.5 Membership of the Stock Exchange

Trading in securities on any Stock Exchange is opened to members only. Stock Exchange has trading ring to settle the transactions. Only members are admitted to this trading ring. To become a member, a person has to confirm certain rules and regulations specified under the securities contract (Regulations) Act, 1957.

These statutory rules provide that no person shall be eligible to be elected as a member if he is

i) less than 21 years of age,

ii) not an Indian citizen,

iii) adjusted bankrupt or proved to be insolvent,

iv) convicted of an offence involving dishonesty,

v) engaged as principal or employees in any business other than that of securities,

vi) members of any other association in India where dealings in securities are carried on,

vii) firms and companies are not eligible to become a member of a recognised stock exchange,

viii) individuals ordinarily not deemed to be qualified.
2.5.1 Eligibility of the Member

Only men of integrity and competence are admitted as member of the stock exchange. Members have to buy a share if the stock-exchange concern is a corporate body having a share capital. He has also to pay Rs.20,000 either in cash or in securities.\textsuperscript{19}

The application for membership is to be made in a prescribed form sponsored by two members of five years standing as members. Before he is admitted as a member, he is required to answer searching questions put by the governing body of concerned Stock Exchange. Question pertaining to applicant's status, resources, market experience etc. After that the board decides upon accepting his application and a membership card is issued to the applicant and the like.

2.6 Management of Stock Exchange

Each Stock Exchange is managed by a committee of management whose conditions and powers are governed by its own bye-laws. This committee is entrusted with the responsibility of overall control and guidance. In Bombay, it is called the "Governing Board", in Calcutta, it is known as the "Committee" and in other places "the Management Council". Their day-to-day function is vested in a number of sub-committee, Arbitration Committee and the like. The stock exchange is governed by a council, consisting of not less

\textsuperscript{19}Corporation Finance Material, Annamalai University, p.147.
than 30 and not more than 36 members, exclusive of the Government Broker, who may speak but has no vote. Members of the stock exchange who have been member for 5 years are eligible for election to the council.20

Twelve members are elected each year for a three year term. At the end of which they are eligible for re-election. As only one third of the council is elected each year, a certain amount of continuity is assured. The securities contract (Regulation) Act provides for a general system of control over Stock Exchanges.

The following Table 2.2 gives the list of president of Bombay Stock Exchange.

---

20Corporation Finance Material, Annamalai University.
Table 2.2
List of Past Presidents of BSE

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year (April to March)</th>
<th>No. of years service</th>
<th>Name of the President</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1875-1896</td>
<td>21</td>
<td>Shri Choonilal Motilal Patwari (Founder President)</td>
</tr>
<tr>
<td>2.</td>
<td>1896-1919</td>
<td>23</td>
<td>Sir Shapurji Broacha</td>
</tr>
<tr>
<td>3.</td>
<td>1920-1922</td>
<td>2</td>
<td>Sir Kikabhai Premchand</td>
</tr>
<tr>
<td>4.</td>
<td>1922</td>
<td>1</td>
<td>Shri N.P. Karani</td>
</tr>
<tr>
<td>5.</td>
<td>1923-1966</td>
<td>43</td>
<td>Shri K.R.P. Shroff</td>
</tr>
<tr>
<td>6.</td>
<td>1966-1967</td>
<td>1</td>
<td>Shri Kantilal Iswarlal</td>
</tr>
<tr>
<td>7.</td>
<td>1967-1971</td>
<td>4</td>
<td>Shri Dhirajlal Maganlal</td>
</tr>
<tr>
<td>8.</td>
<td>1971-1973</td>
<td>2</td>
<td>Shri Laldas Jamnadas</td>
</tr>
<tr>
<td>9.</td>
<td>1973-1977</td>
<td>4</td>
<td>Shri Jayant Amarchand</td>
</tr>
<tr>
<td>10.</td>
<td>1977-1980</td>
<td>3</td>
<td>Shri Mathradas S. Kothari</td>
</tr>
<tr>
<td>11.</td>
<td>1980-1986</td>
<td>6</td>
<td>Shri Laldas Jamnadas</td>
</tr>
<tr>
<td>12.</td>
<td>1986-1987</td>
<td>1</td>
<td>Shri Ramdas Lallubhai</td>
</tr>
<tr>
<td>13.</td>
<td>1987-1988</td>
<td>1</td>
<td>Shri Mahendra N. Kampani</td>
</tr>
<tr>
<td>15.</td>
<td>1991-1992</td>
<td>1</td>
<td>Shri Hemendra Kothari</td>
</tr>
<tr>
<td>17.</td>
<td>1994-1995</td>
<td>1</td>
<td>Shri Bhagirat B. Merchand</td>
</tr>
<tr>
<td>18.</td>
<td>1995-1996</td>
<td>1</td>
<td>Shri Kamal S. Kabra</td>
</tr>
<tr>
<td>19.</td>
<td>1996-1998</td>
<td>2</td>
<td>Shri M.G. Damani</td>
</tr>
<tr>
<td>20.</td>
<td>1998-1999</td>
<td>1</td>
<td>Shri J.C. Parekh</td>
</tr>
<tr>
<td>21.</td>
<td>1999-2001*</td>
<td>1</td>
<td>Shri Anand Rathi</td>
</tr>
</tbody>
</table>

After 2001, the management structure of the exchanges changed with Chief Executive Officer and Executive Director being the administrative head of the exchanged.

It is clear from the Table 2.2 that the entire operations of the BSE of India have been fully controlled by a committee chaired by the President of the Exchange. It is surprisingly observed from the above Table that one of the President, Mr.K.R.P.Shroff had occupied this position for a very longer period of 43 years.

2.7 Regulation of Stock Exchanges in India

The following are the various regulating method of Stock Exchanges in India.

2.7.1 Securities Contracts (Regulations) Act 1956

For a long time, there was no comprehensive legislation in India for controlling the working of stock exchanges. In March 1994, the Government of India undertook the study of stock exchanges with references to relation between speculation and inflation. Later, Dr.P.J.Thomas, adviser to the Ministry of Finance pursued the enquiry and gave his report in 1947. The officials of the Government and the Reserve Bank of India considered the report and suggested a draft legislation.

 Accordingly, a committee under the Chairmanship of Sri A.D.Gorwala was constituted in 1951 to suggest suitable legislation for effective regulation of stock exchanges. The committee submitted its report in 1951. The Government of India after thorough analysis of the report presented securities
contracts (Regulations) Bill in the Lok Sabha in 1951. The bill as amended by the committee was passed with some amendments by the Lok Sabha on the 16th of July 1956 and by the Rajya Sabha on the 6th of August 1956. The Act came into force throughout India on the 20th of February 1957.  

2.7.2 **Provisions of the Securities Contract (Regulations) Act 1956**

The fundamentals of the Act are summarised below:

(a) Centralisation of control: The Act vested with substantial powers in the Government to control the working of various stock exchanges. While granting recognition, the Central Government may impose several restrictions which may be in regard with the Qualifications of members, mode of entering into contract, representation of the Government on the stock exchange and maintenance of account by the members and their audit by a chartered accountant.

(b) Regulation of Working: The act envisages to control the working of the stock exchanges through bye-laws to be approved by the Central Government before they can be enforced.

(c) Regulation of Speculation: The act also envisages to regulate the speculative transaction and the Government has been vested with the power to prohibit sale or purchase of any security if it feels that such transaction may lead to undesirable speculation.

---

21 Corporation Finance Material, Annamalai University, p.166.
(d) Regulation of Blank Transfers: The Act has made provisions to discourage this practice, though indirectly. It makes unlawful for the holder of any security whose name appears on the books of the company issuing the said security to receive and retain and dividend declared by the company irrespective of the fact that the said security has been transferred by him for consideration unless the transferee gets the security registered in his name within fifteen days of the date on which the dividend become due.

(e) Licensing of dealers in securities: The Act has prohibited dealings in the securities in the Stock Exchanges by the licensed dealers with a view to protect small and uninformed investors from the undesirable activities of Brokers.

(f) Licensing of securities: The Government has the power to ask and require any company to get its securities listed in Stock Exchange.

(g) Prohibition of options in securities: The Act provides that all the options of dealing in securities entered into after the commencement of the Act would be illegal and it has made them cognisable offence punishable with imprisonment or fine or both.

(h) Powers of supersession and suspension: The Act contains the provisions of extreme nature is so far, as it has vested power in the Central Government to supersede the governing body of a stock exchange to suspend
such of its business for such a period not exceeding 6 days if it is considered essential in the interest of public and trade.

(i) Enquiry into Stock Exchange Affairs: Every Stock Exchange has to submit periodical returns relating to its affairs to the Government. Whenever necessary the Government can appoint one or more persons to make enquiry in the prescribed manner into the affairs of the exchange and submit the report within the prescribed time.

2.7.3 Critical Evaluation of the Act

The securities contracts (Regulation) Act 1956, contains several provisions for the efficient working of the Stock Exchanges. It has removed the slackness in their organisation. It has prohibited some undesirable practices which prevailed earlier in the Stock Exchanges. However, the Act has been criticised on the following grounds.

(a) The regulations imposed by the Act has only led to the virtual abrogation of internal autonomy of the stock exchanges.

(b) Critics have pointed out that the Act does not contain effective provisions to prevent the unhealthy practices and minimise the undesirable and irresponsible speculative transactions carried on by the unscrupulous speculators.
(c) It does not make any distraction between tarawaniwalas and brokers, it leads to several unrestrained and undesirable practices and results in over trading by them.

2.8 Capital Issues Control Act 1947

The capital issues of the companies are controlled accordingly to the direction notified in the capital Issues Control Act and changes made from time to time in the Act. Capital Issues Control Act was passed in 1947 with the objectives of

(a) giving some direction to new issues so that they are in consonance with the planned period.

(b) to ensure protection to investor through legal rules, regulations and controls.

(c) to widen the distribution of shares to public so that there is greater participation of the investing public and

(d) to incorporate within its control; (i) all companies which have made a floatation of Capital of India, whether incorporated in India or abroad, and (ii) all companies registered in India whether floating capital in India (or) abroad.

2.9 Role of Stock Exchanges
Stock Exchanges play an important role in capitalistic countries. The important of a Stock Exchange will be clear from the study of its functions.

(a) **Stock Exchange provide a ready and continuous market**

In the stock exchange anybody can purchase or sell the securities during the business hours 9.55 a.m to 3.30 p.m and extended to another half an hour for post closing session. It provides liquidity, price continuity and marketability to the capital locked-up in the investments.

(b) **Facilitates Regular Valuation of Securities**

In a Stock Exchange, evaluation of the listed securities is carried on continuously. A well regulated and efficient Stock Exchange performs this function of evaluation cheaply and quickly.

(c) **Encourages Capital Formation**

Stock Exchanges contribute to a considerable extent to capital formation in the country. It promotes the habit of saving, investing and risk taking in the investor. Funds in corporate or Government securities earning of dividend and interest on such securities and reinvestment of the whole or part of such income in similar leads to capital formation.

(d) **Provides Proper Direction to Invest Capital**

The securities of companies with good profits are popular in the Stock Exchanges. Investors are attracted towards these securities. The securities of
companies which are not profitable bear no response in stock exchange. In this way, Stock Exchange gives proper direction to invest the capital of investors.

(e) Ensure Wide Ownership of Securities

A Stock Exchange ensures wider distribution of securities. If a company's securities are listed in different stock markets of the country, its securities will be bought and sold by persons scattered all over the country and ownership of securities is widely diffused.

(f) Facilitates Distribution of New Securities

Stock Exchange is primarily a market for dealings in second hand securities. But it helps in marketing the shares and debentures of a new company also. If the securities are listed on the Stock Exchange for the purpose of their trading, they attract investors from different parts of the country.

(g) Ensures Safety of Funds

Stock Exchanges ensure safety of investable funds because they have to operate under set rules which seek to check over-trading, speculation and manipulation. They would strengthen the investors confidence and stimulate larger investment in business securities.

(h) Regulates Company Management and Performs
The companies which want to get their securities listed have to follow certain rules and fulfil prescribed requirements. As the Stock Exchange publishes the ruling prices of the securities constantly, it indirectly induces the companies to improve their performance. Otherwise, its inefficiency would soon revealed to the public.

(i) Disseminates Information

A Stock Exchange disseminates information relating to the capital management, earnings and dividends of listed companies through information bureau.

(j) Facilitates Speculation

Stock Exchanges provide facilities for speculation in the securities. Healthy speculation tends to equate demand and supply and regulate their prices to a substantial extent.

(k) Mirror of Business Cycle

Stock Exchanges mirror the phases of business cycle that is the changing conditions of economic health of a country. Booms and depression find their echoes in the dealings on Stock Exchanges.

The above functions performed by a Stock Exchange show that it is really an important institution of a country.

2.10 Services of Stock Exchanges
A well organised and efficient Stock Exchange renders services of considerable importance. Such services can be examined under the heads of community, investors and company.

2.10.1 Services to the Community

i) It helps in the financing of the economic development of the country. The rapid growth of the corporate sector in the recent times has been possible partly because of the facilities provided by the Stock Exchanges.

ii) It encourages highly profitable enterprises. It places a premium on efficiency. It diverts funds from unprofitable and unproductive channels to profitable and productive ones.

iii) The Stock Exchange facilitate the process of capital formation. In the absence of a well organised Stock Exchange, it is impossible to develop sufficient finance necessary for rapid industrialisation of a developing economy.

iv) It helps the Government to borrow funds from the public and utilise the same on projects of national importance.

v) It encourages even persons of small or no knowledge of corporate finance to acquire shares in large concerns in the hope of earning a good return on them.
vi) On the basis of information provided by the Stock Exchange, investors are able to buy shares in concerns operating different parts of the country (or) even in different parts of the world.

vii) By generating the habit of savings in the corporate's securities, the Stock Exchange can help the country to channelise the savings for productive purposes.

2.10.2 Services to the Investors

i) The Investors are assured of a ready and continuous market for the securities owned by them and thus liquidity of the investment is ensured by the stock market.

ii) Investors may assure credit on the basis of the securities owned by them easily as the stock market provide negotiability to the securities.

iii) An investor may be assured of safety of investment and fair dealings in them when they are dealt with a well regulated and well organised Stock Exchange.

iv) The investors can easily ascertain the value of securities held by them. They can also findout the variation in the value from the market quotation published by the Stock Exchange either daily or periodically.
v) The investor is also assured safety for his funds and fair dealings in them. The rules and regulations of the exchange ensure fair dealings and protect the investors against loss from unfair dealings.

vi) Facility for quick disposal of securities at the Stock Exchange helps to minimise the risk of investment in securities. It becomes possible to diversify investment and risks. An investor can easily sell his holdings when the prices begin to fall.

2.10.3 Services to the Company

i) Easy marketability of securities help companies to enjoy a wide market for their shares.

ii) When the securities of a company are listed in the Stock Exchange, the company enjoys better reputation and credit standing and it gives on impression of a sound concern.

iii) If the securities of a company are offered through a Stock Exchange they get good response from the public.

iv) Price fluctuations are minimised. Therefore, the companies whose securities are listed in the Stock Exchange enjoy the confidence of the investors.
v) Generally, in relation to the earnings, dividends and property values, the market price of listed securities are high and this helps the company in merger plans. In such a situation, it would be able to fetch a higher price.

vi) Regulation of company management and performance is ensured. The companies which want to get their securities listed in the Stock Exchanges have to follow certain rules and fulfill certain conditions. Through their rules and regulations, the Stock Exchanges exercise influence on the management of the companies. This factor safeguards the interest of investing public and also regulates the company management.

2.11 Listing of Securities

A Stock Exchange does not deal in the securities of all companies but only securities which are included in the official trade list of the Stock Exchange. A security is said to be "listed" when its name is added to the list of securities in which trading on a particular exchange is permitted. So "listing" means admission of securities to the dealings on a recognised Stock Exchange. The securities may be of limited company, Central or State Government, quasi Governmental and other financial institutions/ companies, municipalities and the like. By listing the securities of a company the stock exchange does not guarantee the financial soundness of the company or recommend its share to
the public. It is not the function of the Stock Exchange to advise the investors in the selection of securities.

2.11.1 Objectives of Listing
The objective of listing are; to provide ready marketability, liquidity and free negotiability to stocks and shares; to ensure proper supervision and control of dealings there in; to protect the interests of shareholders and of general investing public; and to mobilize savings for economic development.

2.11.2 Listing : Is it a Legal Requirement
There is no statutory obligation that a public limited company should get its shares enlisted on a recognised stock exchange unless it seeks to raise funds from the public by issue of a prospectus. A company declaring in the prospectus its intention of applying for enlistment is required under section 73 of the Companies Act 1956 to make listing application to the Stock Exchange concerned.

Further, Government has the power under section 21 of the securities contract (Regulation) Act, 1956, to compel a public limited company, to list its shares on a recognised Stock Exchange. Similarly public financial institutions and nationalised bank make similar stipulations when agreeing to subscribe a new issue of capital.

2.11.3 Listing Regulations
The listing regulations at all the recognised Stock Exchanges are same. A company desiring its securities to be listed must apply in the prescribed form with the various documents and informations. While scrutinising the application the Stock Exchange will examine the submitted documents carefully.

After the scrutiny of the application, if the Stock Exchange authorities are satisfied, they call upon the company to execute the "Listing Agreement". Listing Agreement must be executed under the common seal of the company. It determines the relationship between the Stock Exchange and the company. It protects the larger interest of the shareholders; investors and those dealing in the securities concerned.

2.11.4 Listing Requirement

The listing requirements do not prescribe any previous track-record. Companies wanting to be listed on the BSE before Mid-1995 were required to have a paid up share capital of Rs.3 crore and atleast 25 percent of the capital should have been held by the general public. After July 1995, the paid up capital requirement was raised to Rs.5 crore. The minimum requirement has been further increased to Rs.10 crore with effect from February 1996. The companies, that are already listed on the Stock Exchanges and want to be
listed on the BSE, are required to have the minimum paid up capital of Rs.5 crore, book value of Rs.10 crore and market capitalisation of Rs.10 crore.\textsuperscript{22}

The Agreement enjoins upon the company to provide prompt facilities for transfer, registration, subdivision and consolidation of shares without any charge. The agreement also provide safeguards to protect the interest of the investors and shareholders. The company will be required to list its new issues of shares and debentures.

2.12 Indian Stock Market Structure

In tune with the global stock markets that began to recover from the second half of 2003. Indian stock markets too witnessed rapid growth. India’s two leading indices, the most popular BSE Sensex, and the one most used by the markets the National Stock Exchanges’ S&P CNX Nifty rose to record levels. Both primary and secondary market activity experienced sharp surge. Much progress was made in further strengthening and streamlining risk management, market regulation and supervision.

Indian securities market is fairly large as compared to several other emerging markets. There are 23 stock exchanges in the country, though the entire liquidity is shared between the country’s two national level exchanges namely, the National Stock Exchange of India and the Bombay Stock

\textsuperscript{22}I.M. Pandey, 'Financial Management', Published by Vikash Publishing House Pvt. Ltd., p.989.
Exchange Ltd. The regional stock exchanges are in pursuit of business models that make them viable and vibrant. Meanwhile, these exchanges have become members of the national level exchanges through formation of subsidiaries whose business is showing continuous growth and progress. The Table 2.3 explains the details of growth of Market structure in Indian stock markets.
Table 2.3

Growth of Market Structure in Indian Stock Market (in number)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Stock Exchanges</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2.</td>
<td>Cash Market</td>
<td>22</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>3.</td>
<td>Stock Exchanges</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4.</td>
<td>Derivatives Market</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>5.</td>
<td>Brokers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6.</td>
<td>Cash Segment</td>
<td>9005</td>
<td>9069</td>
<td>9192</td>
<td>9782</td>
<td>9687</td>
<td>9519</td>
<td>9368</td>
<td>9128</td>
<td>9335</td>
</tr>
<tr>
<td>7.</td>
<td>Sub Brokers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8.</td>
<td>Cash Segment</td>
<td>3760</td>
<td>4589</td>
<td>5675</td>
<td>9957</td>
<td>12208</td>
<td>13291</td>
<td>12815</td>
<td>13684</td>
<td>23479</td>
</tr>
<tr>
<td>9.</td>
<td>Brokers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10.</td>
<td>Derivatives</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>519</td>
<td>705</td>
<td>795</td>
<td>829</td>
<td>994</td>
<td>1120</td>
</tr>
<tr>
<td>11.</td>
<td>Foreign Institutional Investors</td>
<td>496</td>
<td>450</td>
<td>506</td>
<td>527</td>
<td>490</td>
<td>502</td>
<td>540</td>
<td>685</td>
<td>882</td>
</tr>
<tr>
<td>13.</td>
<td>Depositories</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>14.</td>
<td>Depository Participants</td>
<td>52</td>
<td>96</td>
<td>191</td>
<td>335</td>
<td>380</td>
<td>438</td>
<td>431</td>
<td>477</td>
<td>526</td>
</tr>
<tr>
<td>15.</td>
<td>Merchant Bankers</td>
<td>802</td>
<td>415</td>
<td>186</td>
<td>233</td>
<td>145</td>
<td>124</td>
<td>123</td>
<td>128</td>
<td>130</td>
</tr>
<tr>
<td>16.</td>
<td>Bankers to an issue</td>
<td>72</td>
<td>66</td>
<td>68</td>
<td>69</td>
<td>68</td>
<td>67</td>
<td>55</td>
<td>59</td>
<td>60</td>
</tr>
<tr>
<td>17.</td>
<td>Venture Capital Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>35</td>
<td>34</td>
<td>43</td>
<td>45</td>
<td>50</td>
<td>80</td>
</tr>
<tr>
<td>18.</td>
<td>Foreign Venture Capital Investors</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>9</td>
<td>14</td>
<td>39</td>
</tr>
<tr>
<td>19.</td>
<td>Registrars to Issue and Share Transfer Agents</td>
<td>334</td>
<td>251</td>
<td>242</td>
<td>186</td>
<td>161</td>
<td>143</td>
<td>78</td>
<td>83</td>
<td>83</td>
</tr>
<tr>
<td>20.</td>
<td>Portfolio Managers</td>
<td>16</td>
<td>18</td>
<td>23</td>
<td>39</td>
<td>47</td>
<td>54</td>
<td>60</td>
<td>84</td>
<td>132</td>
</tr>
<tr>
<td>21.</td>
<td>Mutual Funds</td>
<td>38</td>
<td>41</td>
<td>38</td>
<td>39</td>
<td>38</td>
<td>38</td>
<td>37</td>
<td>39</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: Securities and Exchange Board of India

It is clear from Table 2.3 that the number of brokers in various stock exchanges rose from 6,711 in 1994-95 to 9,335 in FY06. The number of brokers in all the exchanges together peaked to 10,213 in the year FY01 but gradually declined thereafter when the regional stock exchanges began to
lose business in the light of wide ranging market structure reforms introduced since then. In FY01, when the markets were in upswing, several regional stock exchanges were generating business owing to the availability of deferral products, such Badla and different settlement calendars prevailing at that time in these exchanges. For instance in FY01, the Delhi Stock Exchange registered cash market turnover of Rs 838.71 bn; Uttar Pradesh Stock Exchange, Rs 247.47 bn, Ludhiana Stock Exchange Rs 97.32 bn, Pune Stock Exchange Rs 61.71 bn as against Rs 13,395.11 bn of the turnover at the National Stock Exchange and Rs 10,000.32 bn turnover at the Bombay Stock Exchange. With the abolition of the deferral products and introduction of uniform T+2 settlement cycle, the liquidity in these exchanges flowed to the national level system consisting of NSE and BSE.

2.12.1 Exchange Wise Brokers and Sub Brokers in Indian Stock Exchanges

Sub-brokers are an important constituent of Indian stock markets. Sub-brokers work under brokers with specified limits for trading and risk management. Sub-brokers are term as useful part in the value chain since they provide active interface with a large number of investors across the country and also extend the reach and access of the services of the brokerage firms. The Table 2.4 presents Exchange-wise Brokers and Sub-Brokers in Indian Stock Exchange 2005-06.
Table 2.4

Exchange-wise Brokers and Sub-Brokers in Indian Stock Exchanges 2005-06

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Stock Exchange</th>
<th>Brokers</th>
<th>Sub brokers</th>
<th>% corporate brokers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ahmedabad</td>
<td>317</td>
<td>119</td>
<td>48</td>
</tr>
<tr>
<td>2.</td>
<td>Bangalore</td>
<td>256</td>
<td>156</td>
<td>49</td>
</tr>
<tr>
<td>3.</td>
<td>Bombay</td>
<td>840</td>
<td>10691</td>
<td>79</td>
</tr>
<tr>
<td>4.</td>
<td>Bhubaneshwar</td>
<td>219</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>5.</td>
<td>Calcutta</td>
<td>962</td>
<td>88</td>
<td>21</td>
</tr>
<tr>
<td>6.</td>
<td>Cochin</td>
<td>434</td>
<td>42</td>
<td>18</td>
</tr>
<tr>
<td>7.</td>
<td>Coimbatore</td>
<td>135</td>
<td>22</td>
<td>36</td>
</tr>
<tr>
<td>8.</td>
<td>Delhi</td>
<td>375</td>
<td>343</td>
<td>57</td>
</tr>
<tr>
<td>9.</td>
<td>Gauhati</td>
<td>110</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>10.</td>
<td>Hyderabad</td>
<td>304</td>
<td>199</td>
<td>40</td>
</tr>
<tr>
<td>11.</td>
<td>Inter Connected</td>
<td>788</td>
<td>3</td>
<td>36</td>
</tr>
<tr>
<td>12.</td>
<td>Jaipur</td>
<td>507</td>
<td>34</td>
<td>4</td>
</tr>
<tr>
<td>13.</td>
<td>Ludhiana</td>
<td>293</td>
<td>38</td>
<td>29</td>
</tr>
<tr>
<td>14.</td>
<td>Madhya Pradesh</td>
<td>174</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>15.</td>
<td>Madras</td>
<td>182</td>
<td>115</td>
<td>39</td>
</tr>
<tr>
<td>16.</td>
<td>Magadh</td>
<td>198</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>17.</td>
<td>Mangalore</td>
<td>66</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>18.</td>
<td>National SE</td>
<td>1014</td>
<td>11359</td>
<td>91</td>
</tr>
<tr>
<td>19.</td>
<td>OTCEI</td>
<td>769</td>
<td>19</td>
<td>76</td>
</tr>
<tr>
<td>20.</td>
<td>Pune</td>
<td>192</td>
<td>161</td>
<td>30</td>
</tr>
<tr>
<td>21.</td>
<td>Saurashtra-Kutch</td>
<td>426</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td>22.</td>
<td>UPSE</td>
<td>463</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>23.</td>
<td>Vadodara</td>
<td>311</td>
<td>41</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Securities and Exchange Board of India
It is clear from the Table 2.4 with the rapid growth of securities trading and deepening of the stock markets, the number of sub-brokers nearly doubled in the last ten years from 9,957 in FY01 to 23,479 in FY06. In the national level stock exchanges, a large portion of the brokers are corporatised though enough incentive does not appear to exist for similar trends to appear in the regional stock exchanges.

2.12.2 Market Capitalisation

Market capitalization is the indicator of economy of our country. It is multiplication of number of equity of share of company and its market price. The Table 2.5 explains the details of market capitalization in India.

Table 2.5
Market Capitalisation in India

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>As at End March</th>
<th>Market Capitalisation (Rs bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>NSE</td>
</tr>
<tr>
<td>1.</td>
<td>1997</td>
<td>4193.67</td>
</tr>
<tr>
<td>2.</td>
<td>1998</td>
<td>4815.03</td>
</tr>
<tr>
<td>3.</td>
<td>1999</td>
<td>4911.75</td>
</tr>
<tr>
<td>4.</td>
<td>2000</td>
<td>10204.26</td>
</tr>
<tr>
<td>5.</td>
<td>2001</td>
<td>6578.47</td>
</tr>
<tr>
<td>6.</td>
<td>2002</td>
<td>6368.61</td>
</tr>
<tr>
<td>7.</td>
<td>2003</td>
<td>5371.33</td>
</tr>
<tr>
<td>8.</td>
<td>2004</td>
<td>11209.76</td>
</tr>
<tr>
<td>9.</td>
<td>2005</td>
<td>15855.85</td>
</tr>
<tr>
<td>10.</td>
<td>2006</td>
<td>28132.01</td>
</tr>
</tbody>
</table>

Source: Handbook of Statistics SEBI

It is understood from the Table 2.5 that the Market capitalisation of stocks in India rose from Rs. 67.50 bn in 1980 to Rs. 705.21 bn in 1990 to
Rs 11,926.30 bn in 2000. BSE market capitalisation as of mid-2007 is about Rs 40,000 bn, which in the background of the appreciating rupee, takes it to among the small group of exchanges with a trillion dollar market cap. Market capitalisation as percent of gross domestic product which was about 25% in the early 2000s, now equals it. Several leading emerging economies have market capitalization as a multiple of GDP, and in the manner in which stock prices are appreciating in India, the prospects for Indian market capitalisation rising further look good.

2.12.3 Equity Issuance

The capital market provides fund resources to the needy companies. The issuing company has an option of issue of shares either at far or at premium depending on the background of the company. The Table 2.6 explains the details of equity issuance.
Table 2.6

Equity Issuance: At Par and Premium

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Year</th>
<th>At Par</th>
<th>At Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
<td>Amount Rs. bn</td>
</tr>
<tr>
<td>1.</td>
<td>1993-94</td>
<td>608</td>
<td>38.08</td>
</tr>
<tr>
<td>2.</td>
<td>1994-95</td>
<td>942</td>
<td>55.29</td>
</tr>
<tr>
<td>3.</td>
<td>1995-96</td>
<td>1161</td>
<td>49.58</td>
</tr>
<tr>
<td>4.</td>
<td>1996-97</td>
<td>697</td>
<td>34.33</td>
</tr>
<tr>
<td>5.</td>
<td>1997-98</td>
<td>64</td>
<td>2.71</td>
</tr>
<tr>
<td>6.</td>
<td>1998-99</td>
<td>20</td>
<td>1.97</td>
</tr>
<tr>
<td>7.</td>
<td>1999-2000</td>
<td>30</td>
<td>7.86</td>
</tr>
<tr>
<td>8.</td>
<td>2000-01</td>
<td>84</td>
<td>8.18</td>
</tr>
<tr>
<td>9.</td>
<td>2001-02</td>
<td>7</td>
<td>1.51</td>
</tr>
<tr>
<td>10.</td>
<td>2002-03</td>
<td>6</td>
<td>1.43</td>
</tr>
<tr>
<td>11.</td>
<td>2003-04</td>
<td>14</td>
<td>3.60</td>
</tr>
<tr>
<td>12.</td>
<td>2004-05</td>
<td>6</td>
<td>4.20</td>
</tr>
<tr>
<td>13.</td>
<td>2005-06</td>
<td>10</td>
<td>3.72</td>
</tr>
</tbody>
</table>

Source: Securities and Exchange Board of India.

It is clear from Table 2.6 that the resources mobilized from the primary markets in India during FY06 were Rs. 273.82 bn from 139 issues, of which 103 were public issues and 36 were rights issues. Of these, 79 were Initial Public Offerings and 60 were capital issuance from listed companies. The issue size has greatly increased in the last few years and so has the extent of the premium. In FY01, 44% of the issues were of less than Rs 0.05 bn size. In FY06, small issues formed just 4% of the total number of issues.
Capital issues with size more than Rs 1 bn which formed just 12% in FY01 rose to 35% in FY06. The four years beginning FY94 witnessed phenomenal growth in the new issuance leading to mobilisation of Rs 870.85 bn, with the next six years being very subdued and lacklustre with their combined resource mobilisation amounting to just Rs 356.95 bn. Equity issuance showed an uptrend from FY04 onwards which continued in the next four years. In the primary and secondary markets, banking sector emerged as an important industry segment. In the total issuance raised in FY06, banking sector accounted for 45% followed by power, engineering and cement & construction. Of the total resources mobilized from the primary markets during the period FY01 to FY06, banking sector accounts for 42%.

2.12.4 Trading Volumes

Secondary market operations gained greater momentum in the last decade. In the last ten years, the value of trading in both NSE and BSE rose six times making the Indian stock markets the leading market in the Asian region, and is also remarkable as compared to the growth in the world equity markets. The Table 2.7 explains the details of key factors of business.
Table 2.7

Key features of business

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover Rs. bn</th>
<th>Average No. of Scrips Traded Daily</th>
<th>Average Value of Trading Daily in Rs. bn</th>
<th>Index Performance$</th>
<th>Total Index Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NSE</td>
<td>BSE</td>
<td>NSE</td>
<td>BSE</td>
<td>NSE</td>
</tr>
<tr>
<td>1997-98</td>
<td>3700.1</td>
<td>2071.13</td>
<td>1126</td>
<td>1717</td>
<td>15.46</td>
</tr>
<tr>
<td>1998-99</td>
<td>4135.73</td>
<td>3107.59</td>
<td>1022</td>
<td>1464</td>
<td>16.55</td>
</tr>
<tr>
<td>1999-00</td>
<td>8000.50</td>
<td>9804.28</td>
<td>1055</td>
<td>1988</td>
<td>32.69</td>
</tr>
<tr>
<td>2000-01</td>
<td>12858.99</td>
<td>10000.32</td>
<td>879</td>
<td>1532</td>
<td>40.34</td>
</tr>
<tr>
<td>2001-02</td>
<td>5081.21</td>
<td>3072.92</td>
<td>795</td>
<td>1349</td>
<td>20.21</td>
</tr>
<tr>
<td>2003-04</td>
<td>10600.83</td>
<td>5030.53</td>
<td>716</td>
<td>1926</td>
<td>43.28</td>
</tr>
<tr>
<td>2004-05</td>
<td>11409.99</td>
<td>5187.15</td>
<td>798</td>
<td>2152</td>
<td>45.10</td>
</tr>
<tr>
<td>2005-06</td>
<td>15168.39</td>
<td>8100.74</td>
<td>655</td>
<td>2527</td>
<td>61.32</td>
</tr>
</tbody>
</table>

Source: SEBI for turnover and CMIE for other indicators. $ BSE Sensex:

SENSEX is a basket of 30 constituent stocks representing a sample of large, liquid and representative companies. Base Value: 1978-79=100. NSE Nifty:

S&P CNX Nifty is a well diversified 50 stock index accounting for 22 sectors of the economy; Base Value: November 1995=1000

Table 2.7 explains that during the period FY97 and FY08, value of share trading at the National Stock Exchange rose from Rs 3700.10 bn to Rs 15,168.39 bn and at BSE from Rs.2071.13 bn to Rs 8,160.74 bn. An important end in the volumes is the trading of a large number of small and midcap stocks as could be evidenced from the sharp rise in the number of scrips traded at BSE, in which a major chunk of these companies are listed. Average number of transactions rose 5 times at the NSE and about 4 times at
the BSE in the last ten years, thus indicating a strong surge in stock market operations as also predominance of retail investing. The entry of foreign institutional investment has brought in a cumulative investment of USD45 bn since the time markets were opened for foreign investing in FY93 till the end of FY06. Rising international investor interest in Indian stocks has moved the benchmark indices to record levels with the BSE Sensex rising from a level of 3893 in FY98 to above 14000 by mid-2007, and that of NSE from 1117 to about 4500 during the same period.

2.12.5 Domestic and Foreign Flows

There are two major sources of flow of funds to the capital market namely domestic fund and foreign fund. In the recent years, the fund flow from the foreign investors much higher than that of domestic investors. The Table 2.8 explains the domestic and foreign flows.
Table 2.8

<table>
<thead>
<tr>
<th>Year</th>
<th>Cumulative Net FII Investment (USD mn)</th>
<th>Resource Mobilisation (Gross) by Mutual Funds (Rs bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>1638</td>
<td>620.76</td>
</tr>
<tr>
<td>1994-95</td>
<td>3167</td>
<td>187.27</td>
</tr>
<tr>
<td>1995-96</td>
<td>5202</td>
<td>65.08</td>
</tr>
<tr>
<td>1996-97</td>
<td>7634</td>
<td>47.77</td>
</tr>
<tr>
<td>1997-98</td>
<td>9284</td>
<td>114.06</td>
</tr>
<tr>
<td>1998-99</td>
<td>8896</td>
<td>227.10</td>
</tr>
<tr>
<td>1999-00</td>
<td>11237</td>
<td>612.41</td>
</tr>
<tr>
<td>2000-01</td>
<td>13396</td>
<td>929.57</td>
</tr>
<tr>
<td>2001-02</td>
<td>15242</td>
<td>1545.23</td>
</tr>
<tr>
<td>2002-03</td>
<td>15804</td>
<td>3147.06</td>
</tr>
<tr>
<td>2003-04</td>
<td>25755</td>
<td>5901.90</td>
</tr>
<tr>
<td>2004-05</td>
<td>35927</td>
<td>8397.08</td>
</tr>
<tr>
<td>2005-06</td>
<td>45259</td>
<td>10961.49</td>
</tr>
</tbody>
</table>

Source: Handbook of Statistics SEBI

It is clear from Table 2.8 that the cumulative net foreign institutional investors in investment in Indian capital market have been growing year after year.

2.13 Security Exchange Board of India - its Origin and Functions

Stock Exchange is a joint stock form of organisation which is of recent origin. One of the oldest Stock Exchanges was established in London in 1773. In India first organised Stock Exchange was set up in Mumbai in 1887. Even though we had a number of Stock Exchanges before independence, there was
no separate legislation to regulate their working. Later on securities contract (Regulation) Act 1956 was passed in the parliament.

The functioning of Stock Exchange in India have shown many weakness, with long delays, lack of transparency in procedures. To control these short comings and deficiencies and to regulate the capital market, the Government of India repealed capital issues (control) Act, 1947, abolished the office of the controller of capital issues. The Government has setup the Securities and Exchange Board of India in April 1988.²³

SEBI is authorised to regulate all Merchant Banks on issue activity, lay guidelines and regulate the workings of mutual funds and oversee the workings of Stock Exchange in India. SEBI was established for the following purposes; (i) To protect the interest of the investors in securities; (ii) to promote the development of the securities market; (iii) to regulate the securities market; and (iv) to provide for the matters connected with or incidental to the above said purposes.²⁴

2.14 Establishment and Incorporation of Board

The Government has established the Securities and Exchange Board of India in 12th April, 1988. For more than three years, it has no statutory powers. Its interim functions during the period were (i) To collect information and


²⁴Compendium of Capital Issues, SEBI & Listing, Chapter II.
advice the Government on matters relating to stock and capital markets. (ii) Licensing and regulation of merchant banks, mutual funds. (iii) To prepare the legal drafts for regulatory and development role of SEBI and (iv) To perform any other functions as may be entrusted to it by the Government.

The legislation giving powers to SEBI was passed on 4th April 1992. Initially SEBI was set up as a non-statutory body but in January 1992 it was made a statutory body.25 The Board shall be a body corporate by the name aforesaid having perpetual succession and a common seal.

In exercise of the powers under the Section 31W, SEBI has formed three regional offices at Delhi, Calcutta and Chennai. These regional offices have been delegated powers vide PMD/RO/Cir.I/94-95, dated 24 June, 1994. The addresses of the Regional Offices are as under:

(a) **DELHI**

Securities and Exchange Board of India,  
Regional Office,  
4th Floor, Kailash Building,  
26-Kasturba Gandhi Marg,  
NEW DELHI - 110 001.

---

(b) KOLKATA

Securities and Exchange Board of India,
Regional Office,
FMC Fortuna, 5th Floor,
23A/3A Acharya Jagdish Chandra Bose Road,
KOLCUTTA - 700 020.

(c) CHENNAI

Securities and Exchange Board of India,
Regional Office,
Karumutta Centre,
498-Anna Salai,
Nandanam,
CHENNAI - 600 035.

2.15 Management of the Board

Section 4 of the Act lays down the constitution of the management of SEBI. The Board shall consist of the following members namely.

a) A Chairman

b) Two members from amongst the official of the ministries of the Central Government dealing with Finance and Law;

c) One member from amongst the official of the Reserve Bank of India constituted under section 3 of the Reserve Bank of India Act, 1934;
d) Two other members to be appointed by the Central Government, who shall be professionals and interalia have experience or special knowledge relating to securities market.

The Chairman and two other members to be appointed by the Central Government shall be persons of ability, integrity and standing who have shown capacity in dealing with problems relating to securities market and have special knowledge of law, finance, economics, accountancy, administration which, in the opinion of the Central Government, shall be useful to the Board. Members from the officials of the ministries of the Central Government, and members from the officials of the Reserve Bank in India shall be nominated by the Central Government and the Reserve Bank of India respectively.

2.16 Meeting of the Board

The securities and Exchange Board of India shall meet at such times and places, and shall observe such rules of procedure in regard to the transaction of business at its meetings including quorum of meetings it may be provided by regulations. The Chairman or, it for any reason, he is unable to attend a meeting of the Board, any other member chosen by the members present from amongst themselves at the meeting shall preside over the meeting. All Questions which come up before any meeting of the Board shall be decided by a majority vote of the members present and voting. In the event of an equality of votes, the Chairman shall have a second vote on casting vote.
The right to a casting vote is an incident of the office of Chairman of a meeting and not that of the office of Chairman of SEBI.

2.17 Returns and Reports of the Board

The Board shall furnish to the Central Government at such time and in such form and manner as may be prescribed or direct, such returns and statements and such particulars in any proposed programme for the promotion and development of the securities market, as the Central Government may require.

Without prejudice to the provisions of Sub-Section (i) the Board shall, within sixty days after the end of each financial year, submit to the Central Government, a report in such form as may be prescribed, giving a true and full account of its activities, policy and programmes during the previous financial year. A copy of the report received under sub-section (2) shall be laid, as soon as possible and may be after it is received, before each House of Parliament.

2.18 Powers delegated to SEBI Under the Securities Contracts (Regulation) Act 1956

Following are the powers delegated to SEBI under the securities contract (Regulation) Act, 1956.26

a). Powers to call for periodical returns or direct enquiries to be made from any recognised Stock Exchange;

---

b). Grant approval to any recognised Stock Exchange to make bye-laws for the regulation and control of contracts;

c). Powers to make (or) amend bye-laws of recognised Stock Exchanges;

d). Licensing of dealers in securities in certain areas;

e). Powers to compel listing of securities by Public Companies;

f). Granting approval to amendments to the rules of a recognised Stock Exchange;

g). Powers to ask every recognised Stock Exchange to furnish to SEBI a copy of the annual report containing particulars as may be prescribed;

h). Powers to direct recognised Stock Exchanges to make rules;

i). Powers to suspend business of any recognised Stock Exchange;

j). Powers to supersede the governing body of a recognised Stock Exchange;

k). Powers to prohibit contracts in certain areas.

2.19 SEBI Guidelines for Market Makers

SEBI had issued in April, 1993\textsuperscript{27} a preliminary paper proposing to encourage market making in less liquid scraps. Comments and suggestions

\textsuperscript{27}Compendium at Capital Issues, SEBI & Listing.
have been received from some Stock Exchanges, chambers of commerce, investors associations, brokers and others. After considering them carefully, the following guidelines for market makers are issued:

i) Market makers may be introduced in a phased manner in the Stock Exchanges and market making would be introduced only in the Stock Exchanges of Bombay, Calcutta, Delhi and Chennai.

ii) Market makers will be approved by SEBI on the recommendations of the Stock Exchanges and after taking into account certain criteria such as financial-strength, the volume of transactions done in the last year.

iii) Each market maker approved by SEBI should make a market for a minimum of 5 equity shares.

iv) Initially, not more than two market makers in each Stock Exchange would be permitted for the same equity shares. The jobbers working at present in different equity shares could continue to do so.

v) Under the SEBI Guidelines the market maker would be required to give a continuous two-way quote along with the depth for which equity shares he has been authorised to operate as a market maker.

vi) Separate trading counter will be provided to the market makers on the floor at the exchange.

vii) The market maker will function within the bye-laws, Rules and Regulations of the Stock Exchanges.
viii) If the market maker acts as a broker as well, he will have to maintain separate books of accounts for the transactions in his role as a market maker and separately for his role as a broker.

ix) Market making would require financial resources. For this purpose, the Commercial Banks would provide suitable bank credit to market makers approved by SEBI.

2.20 Current Status of SEBI

On the 27th January 1995, the Government of India, by an ordinance called the Securities Laws (Amendment) ordinance 1995 strengthened the regulatory powers of the SEBI over capital market intermediaries and companies. In addition, Government extended regulatory powers to SEBI over corporate in issuing of capital, the transfer of securities and other related matters, which had, vested solely with the Department of Company affairs.

The ordinance empowered SEBI to impose monetary penalties on capital market intermediaries and other participants for a range of violations. The ordinance also empowers SEBI to summon the attendance and call for documents from all categories of stock market intermediaries including person in the securities market.
Further SEBI has been given power to issue directions to all parties to protect investor's interest and ensure development of the securities market. In addition to this, the ordinance has brought the listing agreement under the purview of the SEBI Act. Hence any violation of the existing agreement would be punishable under the SEBI Act.

The policy initiatives undertaken during 2005-06 were as follows:

**a) Policies and Programmes**

i) SEBI Disclosure and Investor Protection (DIP) Guidelines, 2000 relating to book-building issues were amended to introduce a specific allocation of 5 per cent for Mutual Funds, proportionate allotment to Qualified Institutional Buyers (QIBs) and margin requirement for QIBs.

ii) In order to ensure faster and hassle-free refunds, it was decided to extend the facility of electronic clearing services to refunds arising out of public issues, initially at 15 centers where clearing houses are managed by the Reserve Bank of India (RBI).

iii) In order to ensure availability of floating stocks on a continuous basis and maintain uniformity for the purpose of continuous listing, it was decided to amend SEBI (DIP) Guidelines, 2000 prescribing minimum public shareholding of 25 per cent in case of all listed companies.

---

barring a few exceptions.

iv) In order to assist the investors, particularly the retail investors, in-principle approval was given for grading of IPOs by the rating agencies at the option of the issuers. SEBI will not certify the assessment made by the rating agencies.

v) In order to rationalise the disclosure requirements, it was decided to do away with voluminous and repetitive disclosures in case of rights issues and public issues by the listed companies which have a satisfactory track record of filing periodic returns with the stock exchanges and have a comprehensive mechanism for satisfactory redressal of investor grievances.

vi) It was decided to permit an issuer company making a rights issue to despatch an abridged letter of offer which shall contain disclosures as required to be given in the case of an abridged prospectus.

vii) It was decided to permit a listed company to fix and disclose the issue price in case of a rights issue, any time prior to fixing of the record date in consultation with the designated stock exchange, and in case of public issue through fixed price route, at any time prior to filing of the prospectus with the Registrar of Companies.

viii) In order to facilitate additional resource mobilisation, a company is permitted to issue further shares after filing a draft offer document
with SEBI, provided full disclosures as regards the total capital to be raised from such further issues are made in the draft offer document.

ix) Listed companies were advised to comply with the provision of revised Clause 49 of the Listing Agreement on corporate governance, including appointment of the independent directors by December 31, 2005.

x) In order to facilitate execution of large trades without impacting the market, the stock exchanges were permitted to provide a separate trading window for block deals subject to certain conditions. BSE and NSE activated this window with effect from November 14, 2005.

xi) SEBI advised the depositories/DPs not to levy any charges when a Beneficiary Owner (BO) transfers all securities lying in his/her account to another branch of the same Depository Participant (DP) or to another DP of the same depository or another depository, provided the BO accounts at the transferee DP and at transferor DP are one and the same.

xii) In order to prevent off-market trades prior to the commencement of trading, SEBI advised depositories that, in case of IPOs, the ISINs of securities should be activated only on the date of commencement of trading on the stock exchanges.

xiii) Following recommendations of the Jagdish Capoor Committee, it was
decided to resume in phases registration under the MAPIN Regulations to obtain the Unique Identification Number (UIN) with biometric impression for a trade order value of Rs.5 lakh and above.

xiv) In order to streamline the settlement system consistent with IOSCO CPSS Task Force recommendations, transactions executed on the stock exchanges would be necessarily settled through the clearing corporation/clearing house of the stock exchanges.

xv) As a further safeguard to the issuance of contract notes, additional conditions were prescribed such as sending of Electronic Contract Notes (ECNs) to a designated e-mail ID and retention of acknowledgements of receipt/proof of delivery only to such clients who have consented for the same. Wherever the ECNs have not been delivered or have been rejected by the e-mail ID of the client, the broker is obligated to send the physical contract note(s) within the stipulated time under the extant SEBI Guidelines.

xvi) On the basis of information provided by depositories regarding establishment of connectivity with both depositories, stock exchanges were advised to shift the shares of certain companies from Trade-for-Trade segment to Rolling Settlement subject to their having at least 50 per cent of non-promoter holdings in demat mode as per Clause 35 of the Listing Agreement.
xvii) A Committee was set up under the Chairmanship of Shri G. Anantharaman, Whole Time Member, SEBI to “Review and Examine the Future of the Regional Stock Exchanges (RSEs): Post-Demutualisation”. According to the terms of reference, the Committee has to deliberate and advise on the future role of RSEs, the manner of dealing with assets in the event of withdrawal of recognition and the process of divestment of their shareholding.

xviii) Based on recommendations of the Secondary Market Advisory Committee, the trading member position limit for stock-based derivatives has been revised.

xix) SEBI allowed mutual funds to participate in the derivatives market in the same manner as the FIIs, subject to position limits.

xx) The eligibility criteria for introduction of derivatives on stocks of companies undergoing restructuring have been prescribed whereby, it has been specified that derivatives can be introduced on stocks of large companies undergoing corporate restructuring on the first day of listing subject to certain conditions.

xxi) In order to expedite the Corporatisation and Demutualisation (C and D) of stock exchanges, SEBI approved and notified C and D schemes of 19 stock exchanges during 2005-06. The NSE and OTCEI have been exempted from submitting C and D schemes as they were
already notified as corporatised and demutualised stock exchanges vide notifications dated March 23, 2005 and September 15, 2005, respectively.

xxii) Based on recommendations of the Madhukar Committee, the SEBI (Mutual Funds) Regulations, 1996 were amended and a notification was issued on January 12, 2006 permitting mutual funds to introduce Gold Exchange Traded Funds (GETFs) in India subject to certain investment restrictions.

xxiii) According to the SEBI Guidelines dated December 12, 2003, every mutual fund scheme should have at least 20 investors and holding of a single investor should not be more than 25 per cent of the corpus. SEBI clarified that this stipulation is applicable at the portfolio level. Moreover, if there is a breach of 25 per cent limit by an investor over the quarter, a rebalancing period of one month would be allowed.

xxiv) In order to facilitate the unit holders to claim tax benefit associated with the payment of Securities Transaction Tax (STT), it was decided to allow mutual funds to share the unique client code of their schemes/plans with the unit holders.

xxv) Mutual funds were permitted to invest in ADRs, GDRs and foreign securities. In case, disclosures to this effect were not made in the offer document, all mutual funds were advised to send a written
communication to the investors about the proposed investment.

xxvi) The Venture Capital Funds were allowed to invest in securities of foreign companies subject to conditions stipulated by RBI and SEBI from time to time.

xxvii) The cumulative debt investment limit for FII investment in debt securities for 2006-07 has been revised upward by the Government within the overall limit of External Commercial Borrowings (ECBs). While such limit for Government securities (G-sec), including Treasury Bills, was raised from US $ 1.75 billion to US $ 2.0 billion, the same for the corporate debt was increased from US $ 0.5 billion to US $ 1.5 billion.

xxviii) In order to provide flexibility to corporate restructuring, SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 is being amended to provide for removal of restrictions on market purchases and preferential allotments. The outgoing shareholders can sell entire stake to the incoming acquirer in case of takeover. However, if the target company’s minimum public shareholding falls below the prescribed minimum, the restoration should take place through a framework provided by the revised Clause 40A of the Listing Agreement.

xxix) In order to simplify the existing framework, the SEBI (Delisting of
Securities) Guidelines, 2003 were amended making it possible for stock exchanges to delist the shares of companies noncompliant with the Listing Agreement.

(b) Review of Trends and Operations

i) The revival of the primary market, which started in 2003-04, gathered momentum in 2004-05, and was further invigorated in 2005-06.

ii) Strong macro-economic fundamentals, sustained growth of the manufacturing sector, active institutional support lent by FIIs and mutual funds, positive investment climate, sound business outlook, encouraging corporate results and buoyant secondary market induced large number of companies to raise resources from the primary market.

iii) During 2005-06, 139 companies accessed the primary market through public and rights issues and mobilised Rs.27,382 crore compared to 60 companies raising Rs.28,256 crore in 2004-05.

iv) Excluding offer for sale, the amount raised during 2005-06 stood at Rs.27,104 crore, which was higher than that of Rs.25,056 crore mobilised in the previous year.

v) All the public issues through IPOs in 2005-06 emanated from the private sector companies, except one i.e., Gujarat State Petronet Ltd., which was a public sector non-financial company.
vi) The sector-wise classification reveals that private sector garnered Rs.20,199 crore through 131 issues in 2005-06 whereas public sector mobilised Rs.7,183 crore through 8 issues.

vii) Industry-wise, banks/financial institutions continued to dominate and mobilised Rs.12,439 crore (45.4 per cent) in 2005-06 through 12 issues.

viii) The Indian stock market witnessed unprecedented buoyancy during 2005-06 and thereby surpassed many of its previous records.

ix) The BSE Sensex and S&P CNX Nifty appreciated by 73.7 per cent and 67.1 per cent, respectively over March 31, 2005. The BSE Sensex gained by 4787 points during the financial year to close at an all time high of 11280 on March 31, 2006. The S&P CNX Nifty also added 1367 points to close at a high of 3403 on March 31, 2006.

x) Commensurate with rise in the stock prices, the turnover and market capitalisation in the cash segment increased significantly in 2005-06. Turnover in cash segment was Rs.23,90,103 crore, a rise of 43.4 per cent over the previous year. BSE market capitalisation rose by 77.9 per cent to Rs.30,22,190 crore over the previous year.

xi) The market capitalisation to GDP ratio increased significantly during 2005-06 and reached an all-time high of about 85.6 per cent. There was also a significant rise in the traded value to GDP ratio which rose
from 53.4 per cent in 2004-05 to 67.7 per cent in 2005-06.

xii) The rise in the traded value to GDP ratio of the derivatives segment, which jumped from 82.1 per cent in 2004-05 to 136.6 per cent in 2005-06, was more impressive.

xiii) Among the sectoral indices, the highest gain was recorded by BSE Capital Goods index (156.0 per cent), followed by BSE Consumer Durables index (115.4 per cent), BSE FMCG index (110.1 per cent) and BSE Auto index (101.2 per cent).

xiv) The valuation of the shares could be gauged from the price-earnings (P/E) ratio. In contrast to the trend in the previous year, the P/E ratios of major indices scaled upward in 2005-06.

xv) The annualised volatility of BSE Sensex, measured by standard deviation of log returns, declined to 16.3 per cent in 2005-06 from 23.8 per cent in the previous year. A similar trend was also observed for S&P CNX Nifty.

xvi) About 86 per cent of the shares were traded for more than 100 days at BSE in 2005-06 compared to 81 per cent in 2004-05. However, the percentage share of this group of shares declined modestly from 96 per cent to 92 per cent in NSE during the same period.

xvii) The number of companies signed up for dematerialisation at NSDL rose from 5,537 in 2004-05 to 6,022 in 2005-06. In CDSL, the
number of companies signed up also increased from 5,068 in 2004-05 to 5,479 in 2005-06.

xviii) During 2005-06, the turnover of derivatives market was 307.4 per cent of the cash market turnover at NSE and 202.2 per cent of the combined cash market turnover of BSE and NSE.

xix) The total number of contracts traded in the derivatives segment of NSE more than doubled to 15,76,19,271 in 2005-06 from 7,70,17,185 in 2004-05.

xx) The average daily turnover rose by 89.7 per cent to Rs.19,220 crore in 2005-06 compared to Rs.10,131 crore in 2004-05.

xxi) Open interest increased by 82.7 per cent to Rs.38,469 crore at the end of March 2006 compared to Rs.21,052 crore a year ago.

xxii) The gross mobilisation of resources by all mutual funds during 2005-06 stood at Rs.10,98,149 crore compared to Rs.8,39,708 crore during the previous year – an increase of 30.8 per cent over the year.

xxiii) The net mobilisation of resources by all mutual funds at Rs.52,779 crore in 2005-06 was the highest ever in a single year compared to Rs.2,200 crore in 2004-05 and Rs.46,808 crore in 2003-04.

xxiv) There were 592 mutual fund schemes as on March 31, 2006, of which, 325 were income/debt oriented schemes, 231 were
growth/equity oriented schemes and the remaining 36 were balanced schemes.

xxv) The total assets under management by all mutual funds rose substantially by 55.0 per cent to Rs.2,31,862 crore at the end of March 31, 2006 from Rs.1,49,600 crore a year ago.

xxvi) The gross purchases of both debt and equity by FIIs increased by 59.9 per cent to Rs.3,46,978 crore in 2005-06 from Rs.2,16,953 crore in 2004-05. However, the net investment by FIIs in 2005-06 declined by 9.6 per cent to Rs.41,467 crore in 2005-06 from Rs.45,881 crore in 2004-05 mainly due to large net outflows from the debt segment.

xxvii) The net investment by FIIs in equity was Rs.48,801 crore in 2005-06, the highest ever in a single year.

xxviii) Several factors are responsible for increasing confidence of FIIs on the Indian stock market which, *inter alia*, include strong macroeconomic fundamentals of the economy, transparent regulatory system, abolition of long-term capital gains tax and encouraging corporate results.

xxix) India has a developed Government securities (G-sec) market. G-sec yields increased across the entire maturity spectrum in 2005-06 due to pressure arising out of high level of sovereign borrowing and pick up in the non-food credit.
Although the public issue of bonds were conspicuous by their absence in 2005-06, corporate sector mobilised large amount of resources (Rs.83,827 crore) by way of private placements.

(c) Regulation of Securities Market

i) This part of the Report delineates the functions of SEBI as specified in Section 11 of the SEBI Act, 1992.

ii) Number of brokers registered with SEBI as on March 31, 2006 was 9,335 as against 9,128 a year ago, a rise of 207 over the year.

iii) Among the exchanges, National Stock Exchange (NSE) had the highest number of brokers at 1,014, followed by the Calcutta Stock Exchange (962) and BSE (840) as on March 31, 2006.

iv) As on March 31, 2006, the number of sub-brokers registered was 23,479 as against 13,684 a year ago, indicating a net addition of 9,795 during 2005-06.

v) During 2005-06, SEBI granted tenure period renewal to one stock exchange and yearly renewal to 10 stock exchanges.

vi) During 2005-06, 224 new FIIs were registered with SEBI and a few were de-registered. As a result, the number of FIIs registered with SEBI as on March 31, 2006 stood at 882 compared to 685 as on March 31, 2005.
vii) As on March 31, 2006, there were 38 mutual funds registered with SEBI of which 30 belonged to the private sector and 8 (including the UTI) were in the public sector.

viii) The number of indigenous venture capital funds increased substantially to 80 during 2005-06 from 50 in 2004-05, an increase of 30 over the previous year. There was also an addition of 25 foreign venture capital funds during 2005-06.

ix) During 2005-06, the amount of fees and other charges received was Rs.57.6 crore as against Rs.169.9 crore in 2004-05, a decline of Rs.112.3 crore or 66.1 per cent over the year. During 2004-05, collection of fees was high due to one-time receipt of arrears from the brokers and sub-brokers.

x) In order to further enhance efficacy of the surveillance function, SEBI decided to put in place a world-class comprehensive Integrated Market Surveillance System (IMSS) across stock exchanges and across market segments (cash and derivatives markets).

xi) The Integrated Surveillance Department of SEBI monitored market movements, analysed trading pattern in scrips and indices and initiated appropriate actions in co-ordination with stock exchanges and depositories.

xii) SEBI-RBI Group on integrated system of alerts has been set up to
share information and to recommend suitable measures so that co-ordinated actions are taken.

xiii) During 2005-06, 165 new cases were taken up for investigation and 81 cases were completed.

xiv) During 2005-06, 411 orders were passed/reports submitted, of which 221 pertained to enquiries and 190 related to adjudications. During the same period, hearings for 196 cases were conducted, of which 88 pertained to enquiries and 108 to adjudications. During 2005-06, 247 show cause notices were issued to different entities, of which 214 pertained to adjudication cases and 33 related to enquiries.

xv) In keeping with the strategy of focused investigation, the number of prosecution cases launched was 26 in 2005-06 compared to 84 cases in 2004-05. As a consequence, the number of persons/entities against whom such cases were launched was also lower at 81 in 2005-06 compared to 410 in the previous year.

(d) Regulatory Changes

i) In order to fine tune the regulatory framework, the following amendments were made during 2005-06:

ii) SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) (Amendment) Regulations, 2005.
iii) SEBI (Mutual Funds) (Amendment) Regulations, 2006.

iv) SEBI (Custodian of Securities) (Amendment) Regulations, 2006.

v) SEBI (Venture Capital Funds) (Amendment) Regulations, 2006.

(e) Organisational Matters

i) This part provides details about the SEBI Board, human resources, promotion of official language, progress of information technology, physical infrastructure, international co-operation, Parliamentary Committee, and implementation of Right to Information Act.

2.21 Summary

In this chapter, the researcher has presented the details of the various activities of Stock Exchange in India in general and the Bombay Stock Exchange in particular. The chapter also cover the early history of the Stock Exchange in India, Development of the Stock Exchange, Membership of the Stock Exchange, Capital issue Control Act 1947, Functions of Stock Exchange, Services rendered by Stock Exchange and listing of securities.