CHAPTER 1
INTRODUCTION TO STOCK EXCHANGE AND CAPITAL MARKET
AT NSE
INTRODUCTION

1.1 Introduction

Stock exchange has a very vital role in the economy and it also helps in the growth and development of the country. There are two most leading stock exchange in India i.e. National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). This chapter focuses on the formation of National Stock Exchange. National Stock Exchange acts as an agent and facilitator for entrepreneurial progress and it also plays a very crucial part in the development of capital market. As of March 2016, National Stock Exchange is the 12th largest stock exchanges in the world in terms of market capitalization (NSE Wikipedia). But a sudden setback was faced by NSE during the December 2016 when the MD and CEO of NSE, Chitra Ramkrishna resigned from her position. It has always been seen that NSE attracts its investors by introducing new products and due to that its share in the market is more than its competitors. Therefore to explain in a more elaborative form, this chapter prepared by the researcher, focuses on introducing the concept of stock exchange, stock markets and origin of NSE, the products which deals under National Stock Exchange and the concept of capital market and their significance.

1.2 Meaning of Stock Market

Stock market is a place where shares of public listed companies are traded. Under stock market, companies sell their shares of ownership of the company in a public market to raise additional financial capital; this allows businesses to do their trading publicly. This is the
most common way companies raise money along with debt markets. Such kind of trading is liquid in nature in comparison to less liquid investments such as property or immovable assets. There are companies who increase their liquidity by trading in their own shares. With this liquidity, an investor can quickly and easily sell and buy the securities. Moreover, prices of stocks and securities play a very major role in stock market. Price of stocks and other assets can influence the social moods. An economy where market is rising it is been considered to be an up and coming economy and hence a trend in increased business investment whereas where the stock market is at its down fall, economy is been considered as in crisis. Therefore, stock market is considered as the primary indicator of economic strength and development of any country.

1.3 Significance of Stock Market

Stock market is an indicator to economic growth and economic development for the country. Prices in the stock market play a very significant role. Share prices affect the wealth of households and their consumption. Central bank is the key controller for the behavior in the stock market and smoothen the operation of financial system. Financial stability is the raison d’être of central banks.

Stock market also operates as the clearing house for all the transactions. They collect and deliver the shares along with guarantee payment to the seller of a security. This reduces or eliminates the risk to an individual buyer or seller that the counterparty could default the transaction.
Economic growth is also achieved if there is smooth functioning of all these activities. It also reduces costs and enterprise risks, promote the production of goods and services which induces employment. With this financial system contributes to increased prosperity. But there is always a controversy for optimal financial system i.e. whether financial system is bank-based or market-based. Current measures such as Global Financial crisis have driven a heightened degree of scrutiny on the impact of structure of stock market called market microstructure.

There is many other significance of stock market such as it acts as an economic barometer. To measure the economic condition of a country, stock exchange is a reliable barometer to measure the same. In every country there are changes in the prices of stock which indicates whether the economy is in recession or boom cycle of the country. Stock market is also known as pulse of economy or economic mirror which reflects the image of economic condition. Along with this stock market of various companies are purchased as well as sold. This process of reinvestment and disinvestment help the economy to invest in most productive investment proposal which further leads to capital formation and economic growth.

The other significance of stock market is that it helps to value the securities on the basis of supply and demand factors. Securities which have high or more demand are the securities of growth oriented and profitable organizations and such kind of valuation is useful for investors, creditors and government as well. With such kind of valuation investors can know the value of their investment, creditors can know the value of their credit worthiness and government can know that how much taxes can be imposed on the value of securities.
Stock exchange also educates public about investment, trading practices and encourages people to invest in ownership securities by regulating new issues. Along with this stock exchange also permits healthy speculation of securities to ensure liquidity of securities being traded. Hence we can say that stock markets main function is to provide ready market for sale and purchase of securities. The investor’s investment can be converted into cash whenever they want, investors can also invest in long term projects without any hesitation because stock exchange gives assurance to the investors about the liquidity and they can convert their long term investments into short term investments.

Apart from all such importance of stock market, there is some more crucial significance like stock exchange also helps the investor to invest in most profitable organizations. The shares of profit making companies are quoted at higher prices as compared to loss making companies. Therefore, general public hesitates to invest in securities of loss making companies. Hence, stock exchange helps the investors to allocate their funds to profitable channels.

This activity also promotes the habits of savings and investment. The stock market encourages the people to invest in securities of corporate sector rather than investing in unproductive assets such as gold, silver etc.

1.4 Relation of Stock Market to Modern Financial System

Financial system has undergone under incredible transformation. The most important feature is the development of disintermediation. This means investing directly in the securities market rather than through a bank. Therefore it has been observed that interest of general
public in investing in the stock market is either direct or through mutual funds instead of making bank as an intermediate. Statistics have also shown that shares have made up an increasingly large proportion of households’ financial assets. The trend has been changed; investors have moved away from ‘traditional government insured bank deposits to more risky securities of one sort or another’. This activity is been followed by many developing and developed countries such as European Union, The United States, Japan and other developed nations.

The other important feature is the move from human trading of listed securities to electronic trading. Such a transformation has made the stock exchanges to enter a new phase. The increase of electronic trading has many implications like it has helped the investors in reducing cost by automating the process to bring the cost down. It has also helped to increase the efficiency of markets as electronic system makes easier to allow different companies located at different places to trade, which again leads to greater liquidity. Electronic trading has also increased the options of greater competition as trader can trade futures on Eurex or Globex at a click. The trader needs not to go through a broker or any one, as all barriers have been removed which leads to globalization. Electronic trading has also increased transparency as anyone can check the prices of securities electronically. Along with this, all these things i.e. increased liquidity, completion and transparency has also tightened the spreads especially for exchange traded instruments.

1.5 Concept of Stock Exchange

Stock exchange is a type of exchange, providing services to stock brokers and traders to purchase or sell securities, stocks and bonds. Stock exchange indicates about the good or bad health of economy. Stock exchange also provides amenities such as issue and redemption of
securities, capital events etc. Stock exchange as an organized security market provides marketability and price continuity for shares and helps in a fair evaluation of securities in terms of their intrinsic worth. Thus it helps orderly flow and distribution of savings between different types of investments. To trade a security, a company should be listed under stock exchange. Therefore, trade on exchange is done only by the members. Generally, there is central location for record keeping but nowadays there are modern markets such as electronic markets, which give an advantage of increased speed and reduced cost of transaction. There are mainly two types of markets i.e. primary market and secondary market. The initial public offerings of stocks and bonds to the investors are done in the primary market and the subsequent trading is done in the secondary market.

“The institution where buying and selling of shares takes place is the stock exchange. Today, stock exchange enables one to be an owner or a part owner of any company. According to Parekh (1953), the earliest location of stock exchange in India was probably under a tree, sometime in 1870. If we talk globally, the world’s oldest stock exchange probably dates back to 1460 in Antwerp, Belgium. Although trading in financial instruments existed, it was for the first time that magnificent monument of Gothic architecture had been built for trading of stocks. Later in 1602, Amsterdam Stock Exchange was established by the Dutch East India Company for dealing of their own stocks and bonds.”

1.6 Role of Stock Exchange

Stock exchanges are prearranged souk, either conglomerate or a joint organization, where members of the organization meet/gather to trade company stocks or any form of securities. The members may act either as agents for their customers or as a principals for their own account. The several role of stock exchange are as follows:
**Raising capital for businesses:** Companies are being provided with the facility to raise capital for their growth and expansion of business through buying and selling of shares to public.

**Mobilizing savings for investment:** “When savings, which can be consumed or can be kept idle as deposits with the bank, are withdrawn by the people and the same amount is used to invest in shares as IPO or issuance of new company shares, it leads to allocation of resources. Such funds help the companies’ management boards finance their organization. This can help to promote business activities with benefits for several economic sectors such as commerce, agriculture and industry, which can result in higher economic growth and productivity.”

**Facilitating company growth:** Acquisition, takeover or merger agreement through stock market is the common ways for a company to grow. This can help the organizations to expand their product lines, increase distribution channels, increase their market share or hedge against volatility.

**Profit sharing:** With increase in the stock prices, there would be an increase in dividends that may result in capital gains, share in the wealth of profitable businesses. But capital losses for shareholders may occur if there are unprofitable and troubled businesses.

**Corporate Governance:** Corporate governance means that it is essential for the company to maintain the balance between its various stakeholders i.e. management, customers, financiers, suppliers, government and community. Along with this companies need to manage its standard and efficiency to satisfy demands of its stakeholders. It is assumed that public companies tend to have better management records in comparison to private companies. Despite of this state, many public companies failed to maintain their corporate governance. The most famous case of corporate mismanagement was of the subprime mortgage crisis during 2007-08. There are many banks and companies which supports the corporate
governance and helps worldwide by providing securities identification number (ISIN) to identify, distinctively, their stocks, bonds and other securities. Therefore, in stock exchanges, shares of underperforming firms, generally, tend to decline.

**Creating investment opportunities for small investors:** Many businesses require huge capital and it’s a bit difficult for the small investors to do so. Therefore the stock exchange provides the opportunity for small investors to own shares of the big companies and become the large investors. Investing in shares is open for both the large as well as small stock investors and people buy the shares according to their purchasing power.

**Government capital-raising for development projects:** Many times government is also in need of fund for the development projects like infrastructural projects such as sewage and water treatment works or housing estates etc. Therefore, sometimes government decides to borrow funds by selling its securities known as bonds. Bond is a type of debt instrument which is not secured by any physical assets; these bonds are backed by creditworthiness and reputation of the issuer. These bonds can be raised through stock exchange. Members of public can buy them and money would be transferred to government in the form of loan. In the short run, the issuance of such bonds can fulfill the need of government.

**Barometer of the economy:** At the stock exchanges, the price of the shares depends on the situation of the economy. Economic forces i.e. recession, depression, inflation affects the stock indexes. When the economy shows the signs of stability and growth, generally share prices tend to rise or remain stable. But when there is financial crisis in the economy, stock market crashes.

There are other functions of stock exchange as well like they also facilitates for the issue and redemption of securities and other financial instruments which includes the payment of dividend and income. The trade which is done on exchange is only by the members and the stock broker do not have a seat on the exchange and the record keeping is central but trade is
linked to physical place because modern markets are fully computerized. Along with these, stock exchanges also cover other types of securities like fixed interest securities or indeed derivatives.

1.7 Stock Exchange in India

Traditionally, an Indian stock exchange was an association of individual members called, member brokers, formed for the express purpose of self-regulating and facilitating the buying and selling of securities by the public and institutions at large. These member brokers were essentially middlemen, who carried out the desired transactions in securities either on behalf of public for commission or on their own behalf.

“Currently there are 19 stock exchanges in India, out of which 4 are national and rest 19 are regional stock exchanges. The 4 national exchanges are Bombay stock exchange, National stock exchange, OTC exchange of India and Inter-connected stock exchange of India. All these stock exchanges are operated under the regulation of SEBI (Securities and Exchange Board of India) by an act of parliament in 1992.” (Source: SEBI Wikipedia)

BSE dominated the Indian stock market for well over a century, until NSE took the lead in the early 1990’s. Today with the availability of Internet and broadband communications most of the securities trading is conducted under NSE and BSE through trading terminals available all over India. The Inter-connected stock exchange of India Limited (ISE) was promoted by 14 regional stock exchanges, with a view to provide trading connectivity to all members of the participating exchanges, in a cost effective manner. And lastly, OTCEI was promoted in 1990 as a profit making company, along the lines of NASDAQ in the USA. Its main objective was to help enterprising promoters in raising finance for new projects in a cost effective manner and to provide investors with a transparent and efficient mode of trading.
OTCEI also introduced many novel concepts to the Indian Capital Markets. It was the first to provide screen-based nationwide trading, sponsorship of companies, market making and scrip less trading.

1.7.1 List of stock exchanges in India

1. Ace Derivatives and Commodity Exchange Ltd., Mumbai
2. Ahmadabad Stock Exchange Ltd.
3. Bombay Stock Exchange Ltd.
4. Bombay Commodity Exchange Ltd., Vashi
5. Calcutta Stock Exchange Ltd.
6. Chamber of Commerce, Hapur
7. Cotton Association of India, Mumbai
8. Delhi Stock Exchange Ltd.
9. India Pepper and Spice Trade Association, Kochi
10. Indian Commodity Exchange Ltd., New Delhi
11. Magadh Stock Exchange Ltd.
12. Metropolitan Stock Exchange of India Ltd.
13. Multi Commodity Exchange of India Ltd., Mumbai
14. Nation Commodity and derivative Exchange Ltd., Mumbai
15. National Multi Commodity Exchange of India Ltd., Ahmadabad
16. National Stock Exchange of India Ltd.
17. Rajkot Commodity Exchange Ltd., Rajkot
19. Universal Commodity Exchange Ltd., Navi Mumbai

1.8 Formation of National Stock Exchange

There are three types of stock exchange available in India; National Stock Exchange, Bombay Stock Exchange and Over the Counter Exchange of India. In this study researcher has studied only about the National Stock Exchange. NSE was established in the year 1992 with the aim of providing modern and fully automated screen based electronic trading system. The need of developing NSE was felt by many industries and investing companies since 1991, since then the formation of NSE was started and it came into existence within the time period of one year. Now a day’s ‘National Stock Exchange is the leading stock exchange of India, located in Mumbai and one of the 12th largest stock exchanges in the world in terms of market capitalization’. NSE is covering number of cities and towns across the whole country. The setup of NSE was done by group of leading Indian financial institutions at the command of government of India to bring transparency in the Indian capital market. The
domestic investors for NSE were LIC, SBI, IFCI, IDFC Limited and Stock Holding Corporation of India. National Stock Exchange is the first exchange in to introduce electronic trading facility. Initially in the year 1992 exchange was incorporated as a tax paying company but later in the year 1993 it was recognized as stock exchange under Securities Contracts Regulation Act, 1956. Then later in the year June 1994, NSE commenced operations in Wholesale Debt Market segment and simultaneously in November 1994, Capital market segment was commenced by NSE. Lastly, operations in Derivative segment were started in the year June 2000. Currently NSE has a market capitalization of more than US$ 1.65 trillion.

1.8.1 Purpose of National Stock Exchange

National Stock Exchange was established by foremost institutions to provide a modern and fully automated screen based trading system within national reach. With this stock exchange has brought about incomparable speed, transparency and efficiency along with market integrity. National Stock Exchange has set up amenities that serve as a model for the securities industries in respect to systems, procedures and practices. The main purpose of setting NSE was the change in securities market in India. The objectives of NSE are; establishing a nationwide trading facility for equities, debts and hybrids instruments, to build an appropriate communication network so that there is an equal access to all the investors all over the country, along with this investors using electronic trading system should have a fair, efficient and transparent securities market. As every company has its own vision and mission, similarly National Stock Exchange’s “vision is to continue to be a leader, establish global presence and facilitate financial well being of people” (Source: NSE Website). Its mission is to meet current international standards of securities markets. Along with this NSE has also
created a benchmark for many industries like NSE is guiding the industries towards the new heights and opportunities. NSE is more than a market catalyst. NSE is a market which is using state-of-art information technology just to provide all the investors a transparent trading, clearing and settlement mechanism.

1.8.2 Products Offered By National Stock Exchange

![Diagram of NSE Products](image)

**Figure 1.1 Types of products at NSE**

**Equities** deal with Mutual funds, Indices, Exchange traded funds, IPOs (Initial Public Offerings), Security lending and Borrowing Scheme. It is a public market which provides fully computerized trading system to the investors so that it becomes safe and easy mode to invest. An equity investment means the buying and selling of shares to gain income from daily fluctuations, dividends and capital gains. The holder of equity is a shareholder having rights to vote in general meetings, enjoy profits and moreover it represents an ownership position in the corporation. The type of participants in the stock market ranges from small
traders to long term investors. The securities market has two inter-reliant and inseparable segments, i.e. primary market and secondary market. Primary market is a market for new issue of shares and provides market for creation and sale of new securities. Primary market also provides an opportunity to the issuers of securities to raise their funds for investments. Such securities can be in form of equity or debt which can be issued in domestic or international markets at face value, discount or premium. On the other hand, secondary market is a market which deals in securities previously issued or securities which are traded in the primary market. National Stock Exchange, Bombay Stock Exchange, NASDAQ are few examples of secondary market.

There are various instruments of equities under which National Stock Exchange deals:

**Mutual funds** is an instrument which pools together the savings of large number of small investors for the purpose of investing in securities to produce attractive capital gains and holding safety and liquidity of investors funds.

**Exchange traded funds** is more attractive security for individual investors than mutual funds because of their low costs, tax efficiency and higher liquidity. Under ETF, investors can diversify their investment as well as they can sell short, buy on margin and purchase one share as well because there is no minimum deposit requirement.

**Initial Public Offerings** is the first sale of stock done by a private company. The basic aim behind issuing IPO’s is to expand their capital. IPO’s can be issued by small, young companies as well as even by large privately owned companies. The process of IPO is generally known as “going public”.

**Securities Lending and Borrowing** is a scheme under which securities are sold short. Short selling means “selling of a stock that the seller does not own at the time of trade. SLB enables
lending of idle securities by the investors through the clearing corporation/clearing house of a stock exchange.”

**Derivatives** deal with Equity Derivatives, Currency Derivatives, and Interest Rate Futures. “It is a financial instrument or an agreement between two parties and its value is determined by the price called underlying variable. Futures contracts, forward contracts, options, swaps and warrants are the most common types of derivatives.” (Source: NSE Website)

Derivatives are the instruments which are traded on exchange and there is no compulsory physical trading of underlying assets. All the transactions in derivatives takes place in future specific date and moreover it has low transaction cost.

**Equity derivatives** are a type of derivative whose value will swing with variations in its underlying assets. Most common type of equity derivatives are options and futures.

**Currency derivatives** are the contracts under which an “investor buys and sells the specific quantity of a particular currency pair at a future date. These derivatives are similar to the stock but the underlying happens to be a currency pair like USDINR, EURINR instead of stocks.”

**Interest Rate Future** is a “financial derivative which is used to hedge against the risk that interest rates will move in an adverse direction, causing a cost to the company. It is a particular type of interest rate derivative.”

**Debt** deals with “Wholesale Debt market, Retail Debt market and corporate bonds”. Debt is the money borrowed by one party from another party. For making large purchases many corporations use this debt method. Debt is an option to borrow money which has to be paid back later with some interest on the borrowed amount. The holder of the debt security has
also the right to sell the security to the other person. In this case, the rights are transferred to
the next person. Such security is also known as fixed-income security. This is because these
securities are issued for a fixed term and are redeemable at the end of the term.

**Debt Market** includes two types of market i.e. ‘wholesale debt market and retail debt
market’. “Wholesale debt market is a trading platform for fixed income securities which
includes government securities, treasury bills, bonds issued by public sector undertakings,
zero coupon bonds, corporate debentures and many more”. In India, the well-known
participants for wholesale debt markets are the commercial banks and financial institutions.
The transaction size of wholesale debt market was huge due to which individual investors
were not able to participate in it. Therefore, a separate market was introduced by NSE for
individual investors named “Retail Debt Market”. Under this market, retail investors can buy
and sell government securities from different locations in the country and this activity can be
conducted through NSE brokers and their sub brokers. Government securities like public
issues of debt by corporate, deposits of banks, mutual funds, insurance companies and
provident funds are the few instruments in the Retail debt market.

**Corporate Bonds** are the long-term debt instruments with maturity of at least 1 year. These
bonds are issued by corporation with the aim of raising funds for ongoing business/operations
like to expand business or mergers and acquisition. If in the case, corporate bonds maturity
lies less than one year then it is referred as a commercial paper.
1.8.3 Education and Careers with National Stock Exchange

As the leading stock exchange and fiscal entity in the country, NSE believes in recruiting the finest of talent in the industry. NSE is looking for talent to be developed into future leaders of their organization by cross-departmental exposure, continuous self-development opportunities and ongoing reinforcement to develop & enhance customer orientation & leadership potential. There is an excellent compensation package including medical benefits, and a reward system designed to promote merit and professionalism. The NSE also deals in online examination and awards certification. Branches of the NSE are located all over India.

NSE provides certificate courses and professional courses to the student, corporate executives and investors as well. Some of its highlights are:

- National Stock Exchange introduced in 1998 a facility for testing and certification by launching NSE's Certification in Financial Markets (NCFM) related to understanding of markets and instruments.
- NSE, in collaboration with reputed colleges and institutes in India, has been offering a short-term course called NSE Certified Capital Market Professional (NCCMP) since August 2009.
- NSE - MKCL Financial Literacy Program: course in personal financial management. The aim of the course is to educate learners on simple concepts of personal finance.
- NSE has joined hands with National Institute of Financial Management (NIFM), Gokhale Institute of Politics and Economics (GIPE) and Manipal Education to impart training with the aim of improving the participant's understanding of how the stock markets function through professional courses.
1.9 Capital Market

“Every company needs long-term as well as short-term capital. Long-term capital is required essentially for investment in fixed assets such as land, building, plant and machinery, vehicle etc. It also includes core working capital and certain kinds of R&D, pre-operating expenses and preliminary expenses incidental to setting up a business, which are required to be deployed or incurred for production or rendering of goods & services. Short-term capital or working capital on the other hand, is required essentially for financing the requirements of day-to-day operations of the business, such as raw materials, work-in-progress, finished goods, trade debtors etc. Capital Market is thus a broad term, which includes primary markets, secondary markets, term lending institutions, long term bonds, debentures markets, banks, investors and almost anybody who is engaged in providing long-term capital whether equity or debt capital to the industrial sector.”
1.9.1 Primary Market and Secondary Market

If a company wants to raise funds for commencing its business, one can issue new securities in the primary market. Hence, primary market is a market where company comes in contact with the public for the first time. But it does not mean that only new companies can issue shares in the primary market, existing companies can also offer the new issues to raise their capital. And once the shares or debentures are issued in the market, they are ready to be sold and again bought by the investors. Such trading practices happen in secondary market. This means that in secondary market trading of existing securities takes place. Any company can
trade under secondary market but one has to be listed in the stock exchange. The two different types of markets are not segregated but are correlated and even same parties can trade in both the markets. Hence we can say that, stock exchanges play a very significant role in constituting capital market.

1.9.2 Role of SEBI in Regulating Capital Market

Securities and Exchange Board of India (SEBI) is the national regulatory body for the securities market. It was set up under the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of and to regulate the securities market and for matters connected therewith. According to SEBI Act, 1992 the powers and functions of the board encompass the regulation of stock exchanges and other securities market, registration and regulation of the working of the stock brokers, sub-brokers, bankers to an issue, trustees of trust deeds, registrar to an issue, merchant bankers, underwriters and many other who have been associated with the stock market. SEBI also has the power to make new rules for controlling stock exchange in India. SEBI has power to provide license to dealers and brokers of capital market. Along with this SEBI have many powers to stop fraud in the capital market. It can ban on the trading of those brokers who have been involved in fraudulent and unfair trade practices related to stock market. It can impose the penalties on capital market intermediaries if they involve in insider trading. Besides this, many big companies want to create monopoly in capital market. So these companies buy all other companies or deal of merging. SEBI sees whether this merger or acquisition is for development of business or to harm the capital market. In addition to this, SEBI also uses his powers to audit the performance of different Indian stock exchange for bringing transparency in the working of stock exchanges. SEBI also has the power to require report of portfolio management to check the capital market performance. And lastly, time to
time SEBI arranges scheduled workshops to educate the investors about their rights and responsibilities with respect to different kind of investments.

1.10 Segments Under National Stock Exchanges

1.10.1 Capital Market Segment (CMS)

On November 3, 1994 NSE started trading in the Capital Market (CM) segment and within a year it established itself as the largest stock exchange in the country in terms of trading volumes. Capital Market is a market which deals with the buying and selling of equity and debt instruments, it channel savings and investment between suppliers of capital and users of capital. Since capital is a vital component for generating economic output it includes primary markets, where stocks and bond issues are sold to investors and secondary markets which trade the existing securities. The Capital Market segment of NSE provides an efficient and transparent platform for trading of equity, preference shares, debentures, warrants, exchange traded funds as well as retail Government securities.

1.10.2 Derivative Segment (DS)

On June 12, 2000 NSE commenced its trading in the derivatives and it “provides trading in futures and options based on benchmark index S&P CNX Nifty and CNX-IT as well as options and futures on single stocks (currently on 51 stocks) and futures on interest rate. The turnover in the derivatives segment has witnessed considerable growth placing NSE on the map of global derivatives market. From the very beginning, NSE established itself as the sole market leader in this segment in the country with more than 99% market share.” Since the launch of Index derivatives Nifty 50 in the year 2000, NSE has further added many products
in equity derivatives and currently NSE provides trading in Futures and Options on nine major Indices and about more than 100 securities.

1.10.3 Wholesale Debt Market Segment (WDMS)

The Exchange started its trading operations in June 1994 by enabling the WDM segment of the Exchange. For trading of a wide range of fixed income securities that include government securities, treasury bills, bonds issued by public sector undertakings (PSUs), floating rate bonds, zero coupon bonds, commercial papers, certificates of deposit, corporate debentures, state government loans, SLR and units of mutual funds etc a trading platform is being provided by WDM segment. To further encourage wider participation of all classes of investors, including the retail investors, the Retail Debt Market segment (RDM) was launched on January 16, 2003 to provide a nationwide, anonymous, order driven, screen based trading system. In the first segment all outstanding and newly issued central government securities are traded in the retail debt market section. Other securities like state government securities, T-bills etc. were added in successive phases.

1.11 Scams in Indian Capital Market

During 1980’s the prices of stock market started increasing and investment in capital market started growing rapidly. It rises to such an extent that it leads to a major scam. **Harshat Mehta Scam (1990’s)** SENSEX which was noted at 800 mark in early 1990, touched 3500 by April 1992. In this scam many organizations were involved along with the brokers like RBI and commercial banks. The brokers were encouraged by the bank to divert the funds from banking system to stock market. Around Rs 4000 crore was diverted from banks to stock market between April 1991 to May 1992. During this activity, RBI was having
knowledge about the trading but they did not take any action or any controlling activity to avoid the scam. Similarly the other scam was **Ketan Parekh scam**. Ketan Parekh followed Harshad Mehta’s footsteps to swindle crores of rupees from banks. A chartered accountant he used to run a family business, NH Securities. Ketan however had bigger plans in mind. He targetted smaller exchanges like the Allahabad Stock Exchange and the Calcutta Stock Exchange, and bought shares in fictitious names. His dealings revolved around shares of ten companies like Himachal Futuristic, Global Tele-Systems, SSI Ltd, DSQ Software, Zee Telefilms, Silverline, Pentamedia Graphics and Satyam Computer (K-10 scrips). Ketan borrowed Rs 250 crore from Global Trust Bank to fuel his ambitions. Ketan alongwith his associates also managed to get Rs 1,000 crore from the Madhavpura Mercantile Co-operative Bank. According to RBI regulations, a broker was allowed a loan of only Rs 15 crore (Rs 150 million). There was evidence of price rigging in the scrips of Global Trust Bank, Zee Telefilms, HFCL, Lupin Laboratories, Aftek Infosys and Padmini Polymer.

The other major scam in Indian capital market was **Ramalinga Raju scam (2009)** when the founder of Satyam was found manipulating the accounting books by showing ‘fictitious assets with the real ones’. The amount involved under this scam was around Rs 8000 crore and when this fraud was exposed in the market, the company lost Rs 10000 crore in market capitalization and there was a great fall in the share prices.

The **Bhansali scam** resulted in a loss of over Rs 1,200 crore (Rs 12 billion). He first launched the finance company CRB Capital Markets, followed by CRB Mutual Fund and CRB Share Custodial Services. He ruled like financial wizard 1992 to 1996 collecting money from the public through fixed deposits, bonds and debentures. The money was transferred to companies that never existed. CRB Capital Markets raised a whopping Rs 176 crore in three
years. In 1994 CRB Mutual Funds raised Rs 230 crore and Rs 180 crore came via fixed deposits. Bhansali also succeeded to raise about Rs 900 crore from the markets. However, his good days did not last long, after 1995 he received several jolts. Bhansali tried borrowing more money from the market. This led to a financial crisis. It became difficult for Bhansali to sustain himself. The Reserve Bank of India (RBI) refused banking status to CRB and he was in the dock. SBI was one of the banks to be hit by his huge defaults.

1.12 Conclusion

The chapter summarises the formation of National Stock Exchange and the significance of stock market in the economy. NSE was formed after the major scam Harshat Mehta and with the establishment of NSE there was introduction of transparency in trading and online platform was introduced for the investors. NSE deals with many products which develops the capital market of India. The chapter also reflects how the market under stock exchanges works.
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