Preface

Until the early 1990s, the trading and settlement infrastructure of the Indian capital market was sub-standard and outdated. Trading on all stock exchanges was through open outcry, settlement systems were paper-based, and market intermediaries were largely unregulated. The regulatory structure was fragmented and there was neither comprehensive registration nor an apex body of regulation of the securities market. The stock exchanges were run as “brokers clubs” as their management was largely composed of brokers. There was no prohibition on insider trading, or fraudulent and unfair trade practices. Since 1992, there has been intensified Capital market reform, resulting in a big improvement in securities trading, especially in the secondary market for equity. Most of the stock exchanges have now introduced online trading and set up clearing houses/corporations. A depository has become operational for scripless trading and the regulatory structure has been overhauled with most of the powers for regulating the capital market vested with Securities Exchange Board of India (SEBI).

Over the last few years, Securities Exchange Board of India (SEBI) has announced several far-reaching reforms to promote the capital market and protect investor interests. Reforms in the secondary market have focused on three main areas: structure and functioning of stock exchanges, automation of trading and post trade systems, and the introduction of surveillance and monitoring systems. Computerized online trading of securities, and setting up of clearing houses or settlement guarantee funds were made compulsory for
stock exchanges. Stock exchanges were permitted to expand their trading to locations outside their jurisdiction through computer terminals. Thus, major stock exchanges in India have started locating computer terminals in far-flung areas, while smaller regional exchanges are planning to consolidate by using centralized trading under a federated structure. Online trading systems have been introduced in almost all stock exchanges. Trading is much more transparent and quicker than in the past. Screen-based trading introduces a greater degree of transparency and reduces spreads. Market manipulation becomes more difficult with screen-based trading and easier to investigate on account of the transparent audit trails that are established.

The Foreign Institutional Investors (FIIs) have been allowed to invest in the Indian securities market since September 1992 when the Government issued the Guidelines for Foreign Institutional Investment. Turnover in the Indian stock exchanges is high, implying that they are dominated by speculative investments, which is not unusual in emerging markets. However, trading volumes in the Indian capital market are fairly large compared to those in other emerging markets.

The Securities Exchange Board of India (SEBI) has taken several measures to improve the integrity of the secondary market. Legislative and regulatory changes have facilitated the corporatization of stockbrokers. Capital adequacy norms have been prescribed and are being enforced. A mark-to-market margin and intraday trading limit have also been imposed. Further, the stock exchanges have put in place circuit breakers, which are
applied in times of excessive volatility. The disclosure of short sales and long purchases is now required at the end of the day to reduce price volatility and further enhance the integrity of the secondary market. In April 1996, SEBI announced a policy initiative that makes access to the primary market more restrictive. SEBI requires that a firm that wishes to go public should have a three-year track record of dividends. If this is not satisfied, it should at least have a project with investment from a financial institution of at least 5 percent of the total project cost. There has been a debate on whether this entry condition is too restrictive. But the measure seems necessary to help recover investor confidence in the corporate sector. The Indian economy is like to grow at faster rate then many other emerging economies of the world. In future, the Indian equity market will be more attractive at global level. New and new financial instruments will be introduced, new players will enter in the market and the scenario of the market is likely to be at par with the capital markets of developed countries.