CHAPTER 3

HISTORY AND GROWTH OF STOCK-BROKING IN INDIA AND KERALA

As economic development proceeds the scope for acquisition and ownership of capital by private individuals also grows. Along with it, the opportunity for stock exchanges to render the service of stimulating private savings and channelising such savings into productive investments exists on a vastly greater scale. In a modern industrial society, which recognises the rights of private ownership of capital, stock exchanges and stockbrokers play a significant role.

The pace at which the equity cult is growing and the stock market boom of 1985 have meant not only a phenomenal increase in the number of investors but also a change in the profile of the stock-broking community. The stock-broking business is attracting qualified management graduates and professional accountants in increasing numbers. With the advent of these professionals, the nature of services rendered by the stock-broking firms are also undergoing speedy transformation. Stock-broking is essentially a function of the capital market, which offers the best value proposition for the development of industry.
"The business of brokers consists of searching out buyers when their customers wish to sell and sellers when their customers wish to buy and arranging transactions in accordance with their customers' instructions."¹ Brokers charge a commission on each purchase and sale, which they execute, but they ordinarily get nothing unless they can complete a transaction.

3.1. Nature of a Stock Exchange

The stock exchanges are the pillars of our modern financial capitalism.² The stock exchange represents an organised market for trading in securities. "Stock Exchange is an association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities".³ The securities dealt in at a stock exchange include the shares and debentures of public companies already issued by them, Government securities and the bonds and debentures issued by municipal bodies, public sector undertakings and port trusts.

The Stock Exchange is almost indispensable for the proper functioning of corporate enterprise. It provides a ready market for existing securities. It means increased liquidity and better marketability

for securities. A stock exchange encourages investment by providing a ready and continuous market to investors of capital in industrial units.\textsuperscript{4} Securities can be evaluated when it is listed and traded in a stock exchange. Evaluation is based on compromise between the opinions of willing buyers and sellers.

Stock exchanges provide the safeguards for investors by protecting their interests through the strict enforcement of their rules and regulations. It helps the proper canalisation of capital. The moment an enterprise ceases to be profitable, capital begins to move to other more profitable enterprises. This works through the security prices on the stock exchange. The securities of the relatively less prosperous concerns may be sold by the investors in favour of more profitable concerns.

Stock exchanges play a very active part in capital formation in the country. They create the habit of saving, investing and risk-taking among the members of the general public. They have traditionally been set up as mutual organisations.\textsuperscript{5}


3.2. Origin and Growth of Stock Exchanges in India

The Stock Exchange is an institution of rather recent growth. Historical records show that there was stock trading in India at Bombay and Calcutta in the first half of the 19th century. Though there was stock trading even at the time of the East India Company, stock business started in its organised form only in 1875.6

3.3. Organisation and Management of Stock Exchanges

The stockbrokers are the members of the stock exchange. The exchange executes its various functions through the members and the members have no existence in isolation from stock exchanges. It is highly desirable that the organisation and management of exchanges are brought to study.

The stock exchanges have organised themselves either in the form of public limited company or a company limited by guarantee or as a voluntary non-profit making association. The recognised stock exchanges are administered through a governing body comprising of elected and nominated members. The governing body has jurisdiction over the members of the exchange, the committees and sub-committees. It has an absolute power to interpret rules, bye-laws and

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regulations of the exchange and to decide all points, questions and disputes relating to the affairs of the stock exchange; and the conduct of the members towards each other or towards third parties. Any interpretation or decision taken by the governing body is final, conclusive and binding on all members, their partners, employees and on all persons dealing with them. The governing body is responsible for managing the properties and finances of the exchange.

Under the constitution of the exchange, the governing body has the power to elect office bearers and appoint committees. It has also the right to admit and expel members. The committees appointed by the governing body are normally empowered to approve and regulate the formation and dissolution of partnerships of members, appoint attorneys, agents, authorised clerks and employees of members. It can also examine and investigate the financial position and the dealings of the members.

The Securities Contract (Regulation) Act, 1956, empowers the Central Government to nominate outsiders not exceeding three in number on the boards of recognised stock exchanges. In addition, the government can direct the stock exchanges to appoint an executive director on their boards.
3.3.1. Rules, Bye-laws and Regulations

Every recognised stock exchange is authorised to have its own rules, bye-laws and regulations and get them approved by the Central Government. The rules deal with constitutional and organisational matters, objectives, membership and administration and related matters. The bye-laws of the stock exchange provide for trading, control and regulations on trading, rights and liabilities of members, arbitration and defaults of members etc. The regulations set out the practices and procedures to be adopted, forms to be filled in and formalities to be observed.  

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### Table T1

**Rules, Bye-laws and Regulations of the Stock Exchange**

<table>
<thead>
<tr>
<th>Rules</th>
<th>Bye-laws</th>
<th>Regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Constitution</td>
<td>a) Dealing on the exchange, trading and bargains</td>
<td>a) The practices and procedures for working of the bye-laws</td>
</tr>
<tr>
<td>b) Objectives</td>
<td>b) Bargains subject to emergencies and margins</td>
<td>b) Forms and notes to be filled in</td>
</tr>
<tr>
<td>c) Membership</td>
<td>c) Settlement and clearing</td>
<td>c) Admission to the floor</td>
</tr>
<tr>
<td>d) Elections</td>
<td>d) Comparison of Bargains</td>
<td>d) Listing of securities</td>
</tr>
<tr>
<td>e) Governing Board</td>
<td>e) Delivery of securities</td>
<td>e) Bargains subject to margin requirements</td>
</tr>
<tr>
<td>f) Standing committees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) Disciplinary proceedings, etc.</td>
<td>g) Brokerage and contract notes</td>
<td></td>
</tr>
<tr>
<td>h) Rights and liabilities of members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Auctions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>j) Arbitration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>k) Defaults and Penalties</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


#### 3.3.2 Membership of Stock Exchanges

The regulations governing the admission of members of the recognised stock exchanges are uniform in terms of the provisions of
the Securities Contracts (Regulation) Rules 1957. These Statutory Rules provide that no person shall be elected as a member if he is –

a) Less than 21 years of age;

b) Not an Indian citizen;

c) Adjudged bankrupt or proved to be insolvent or has compounded with his creditors;

d) Convicted of an offence involving fraud or dishonesty;

e) Engaged as principal or employee in any business other than that of securities;

f) Member of any other association in India where dealings in securities are carried on;

g) Director or employee of company whose principal business is that of dealing in securities.

Lastly, firms and companies are not eligible for membership of a recognised stock exchange, and individuals are ordinarily not deemed to be qualified unless they have had at least two year's market experience as an apprentice or as a partner or authorised assistant or authorised clerk or remisier of a member.

Members of the exchange are entitled to work either as individual entities or in partnership, or as representative members

transacting business on the floor of the market not in their own name but in the name of the appointing members who assume the market responsibility for the business so transacted. The formation of partnerships and appointment of representative members is subject to the approval of the governing body.

Members are entitled to appoint attorneys to supervise their stock exchange business. Such persons must satisfy in all respects the conditions of eligibility prescribed for membership of the exchange and their appointment must be approved by the governing body. Active members are also entitled to appoint authorised assistants or clerks to enter into bargains in the market on their behalf.

Registered remisiers are given entry to the floor of the exchange and are remunerated with a share of brokerage but they are not permitted to transact any business except through the appointing members of their authorised assistants or clerks. But their appointments as well as of authorised assistants and clerks are subject to the approval of the governing body.

3.4. Registration of stockbrokers - SEBI Guidelines

The Securities and Exchange Board of India (SEBI) provides certain guidelines for registration as stockbrokers. To act as a
stockbroker or sub-broker, registration under Securities and Exchange Board of India is compulsory. The following procedure is followed in this respect.

3.4.1. Application for registration of stockbroker

An application by a stockbroker shall be made in Form A and submitted to the stock exchange in which he is admitted as a member.\(^9\) The stock exchange shall forward the application form to the Board as early as possible but not later than thirty days from the date of receipt of the application. The Board may on receipt of the application for registration require the applicant to furnish such further information or clarification as may be necessary. The applicant or his representative shall, if so required, appear before the Board for personal representation.

Before issuing the certificate of Registration, the Board shall take into account all matters relating to buying, selling or dealing in securities and in particular verify that the stockbroker -

a. Is eligible to be admitted as a member of a stock exchange,

b. Has the necessary infrastructure like adequate office space, equipments and manpower to effectively discharge his activities,

c. Has any past experience in the business of buying, selling or dealing in securities,

d. Is subjected to disciplinary proceedings under the rules, regulations and bye-laws of a stock exchange with respect to his business as a stockbroker involving either himself or any of his partners, directors or employees.

3.4.2. Certificate of Registration

The Board, on being satisfied that the stockbroker is eligible, shall grant a certificate in Form D to the stockbroker and send an information to that effect to the stock exchange. The stockbroker holding a certificate shall at all times abide by the code of conduct as specified in Schedule 11.

3.4.3. Refusal of Certificate of Registration

Where an application for grant of a certificate by the stockbroker does not fulfil the necessary requirements, the Board may reject the application after giving a reasonable opportunity of being heard. The refusal to grant the registration certificate shall be communicated by the Board within thirty days of such refusal to the concerned stock exchange and to the applicant stating therein the grounds on which the application has been rejected.
An applicant may, being aggrieved by the decision of the Board, apply within a period of thirty days from the date of receipt of such information, to the Board for reconsideration of its decision. The Board shall reconsider the application and communicate its decision as soon as possible in writing to the applicant and to the concerned stock exchange.

3.4.4. Effect of refusal of certificate of registration

A stockbroker, whose application for grant of a certificate has been refused by the Board, shall not buy, sell or deal in securities as a stockbroker, on and from the date of the receipt of the communication.

Every applicant eligible for grant of a certificate shall pay such fees as specified by the Board. Where a stockbroker fails to pay the fees as fixed by the Board, it may suspend the registration certificate, whereupon the stockbroker shall cease to buy, sell or deal in securities as a stockbroker.

3.4.5. Registration of sub-brokers

The following procedure is followed by the Securities Exchange Board of India for registration as sub-broker:
1. An application by a sub-broker for the granting of a certificate shall be made in Form B. The application for registration shall be accompanied by a recommendation letter from a stockbroker of a recognized stock exchange with whom he is to be affiliated along with two references including one from his banker. The application form duly filled shall be submitted to the stock exchange of which the stockbroker with whom he is to be affiliated is a member.

2. The stock exchange on receipt of an application under sub-regulation (3) shall verify the information contained therein and shall also certify that the applicant is eligible for registration as per criteria specified in sub-regulation (5). The eligibility criteria for registration as a sub-broker shall be as follows:

   a. The applicant is not less than 21 years of age,

   b. The applicant has not been convicted of any offence involving fraud or dishonesty,

   c. The applicant has at least passed 12th standard or equivalent examination from an institution recognised by the Government.

3. The Board, on being satisfied that the sub-broker is eligible, shall grant a certificate in Form E to the sub-broker and send an intimation to that effect to the stock exchange.
Where an application for grant of a certificate under regulation 11, does not fulfil the requirements, the Board may reject the application after giving a reasonable opportunity of being heard. The refusal to grant the certificate shall be communicated by the board within thirty days of such refusal to the concerned stock exchange and to the applicant stating therein the grounds on which the application has been rejected.

A person whose application for grant of a certificate has been refused by the Board shall cease to carry on any activities as a sub-broker.10

3.5. Functional Specialisation among Members

The stock exchanges do not prescribe any functional distinction between members. However, there is a fairly well established specialisation under the following categories: (a) the commission broker, (b) the floor broker (c) the Taravniwala (d) the odd-lot dealer (e) the budliwalla or the financier, (f) the dealer in non-cleared securities, (g) the arbitrager and (h) the security dealer (dealer in Government securities).

10 Ibid. P.289.
Commission brokers are members who execute buy and sell orders received from their individual and institutional clients on the floor of the exchange. They charge commission or brokerage at rates not exceeding the ceiling, which is presently 2.5% of the value of the contract.

Floor brokers constitute those members who execute orders for any member of the exchange. They receive as compensation, a share of the brokerage fees, which the client pays to the commission broker.

Taravniwallas constitute that segment of members who operate mostly for their own account and profit. They specialise in one or more listed securities. By trading in and out of the market for a small difference in price, they help in maintaining a liquid and continuous market for the stocks in which they specialise.

Odd-lot dealers are those members who specialise in buying and selling odd lots. They either buy odd lots and convert them into marketable lots that can be sold or sell odd lots by buying and splitting marketable lots. The marketable lot is 100 shares where the face value of the share is Rs.10 and 10 shares where the face value is Rs.100. Now with increasing number of dematerialised stocks, the scope for odd-lot business is limited.
Budliwallas are members who play the role of financiers. They lend securities to those who have sold short and have to give delivery at the end of the clearing period; or money to those who need funds to take delivery of the securities they have bought. In the former case, the budliwallas earn 'backwardation' charges and in the latter case, the 'contango' charges. The loan is fully secured and the return is governed by the technical position of the market and the ruling rate of interest.

Dealers in non-cleared securities are akin to taravniwallas in their role but they specialise in buying and selling securities, which are not on the active list.

Arbitragers are the stock market operators who specialise in the business of buying or selling securities in one market with the intention of reversing such transactions in another market to profit from the price differences between such markets.

Security dealers are specialists in buying and selling gilt-edged securities i.e., securities issued by the Central and State Governments and by statutory public bodies. Considering the fact that the market for gilt-edged securities is mainly confined only to institutional investors, the number of security dealers are few in

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number. A member must obtain the approval of the Reserve Bank of India to deal in gilt-edged securities.

Apart from their functional specialisation in the secondary market, the members also serve as underwriters and brokers to public issues in the primary market.

3.6. Bombay Stock Exchange (BSE)

As a result of the American Civil War in 1860, there was a quantum jump in the export of cotton from Bombay Presidency to Europe. The American Civil War resulted in the blockade of cotton from America to Europe. Colonial India took advantage of this situation. The continuation of the civil war raised the price of cotton and British India could earn excellent profit. These earnings were channelised into the capital market. As a consequence, the securities market witnessed tremendous investor's enthusiasm for issues of new companies and rampant speculation in the outstanding shares of existing companies. But, with the American Civil War coming to an end in 1865 and several of the new commercial ventures drawing a blank, there was a disastrous slump in the stock market.12

The slump resulted in a general disenchantment with the stock market and disinterest of the broker community. The brokers

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realised that investor confidence in securities market can be sustained only by organising themselves into a well regulated body with defined rules and regulations. This realisation culminated in the formation of the 'Native Share and Stock Brokers Association' in 1875. Later on, in 1887, this Association was converted to an official stock exchange called the 'Bombay Stock Exchange'.

In terms of listed companies, the Bombay Stock Exchange is the second largest in the world. The New York Stock Exchange holds the first position. More than 7000 companies' shares are traded on the Bombay Stock Exchange. When the Exchange was first constituted in 1875, the entrance fee for new members was Re 1 and there were 318 on the list. The number increased to 478 in 1920 and the membership fee then was Rs.48000. At present the Bombay Stock Exchange has 605 members of which 243 are individual players and 362 are corporate members. Today, the BSE is counted among the premier exchanges of the world.

3.7. Formation of other Exchanges

The formation of the BSE was followed by one being set up at Ahmedabad in 1894 and the other at Calcutta in 1908. In the absence

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13 Ibid. 6.
14 Ibid. 12.
16 Ibid 4, p.9.71.
of a proper regulatory framework governing the formation and functioning of stock exchanges, several new exchanges came into being during the short spells of boom that followed the two world wars, only to disappear during the prolonged spells of depression that followed the boom. The process continued till 1956, when the Government came out with a comprehensive legislation called the 'Securities Contract (Regulation) Act to regulate the functioning of stock exchanges. This legislation made it mandatory on the part of stock exchanges functioning in any notified state or area to secure recognition from the Central Government and laid down the criteria based on which the Government can grant such recognition.

Today, there are 23 stock exchanges in the country, including Over the Trading Counter Exchange of India (OTCEI) and the National Stock Exchange (NSE). The names of these stock exchanges with their geographical locations and the dates of securing Government recognition are given in table T2 below:
### Table T2
Organisation of Recognised Stock Exchanges in India

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Name of Stock Exchanges</th>
<th>Date of Recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Stock Exchange, Bombay</td>
<td>31.08.1957</td>
</tr>
<tr>
<td>2</td>
<td>The Calcutta Stock Exchange Association Ltd., Calcutta</td>
<td>10.10.1957</td>
</tr>
<tr>
<td>3</td>
<td>The Stock Exchange, Ahmedabad</td>
<td>16.10.1957</td>
</tr>
<tr>
<td>4</td>
<td>The Madras Stock Exchange Ltd., Madras</td>
<td>15.10.1975</td>
</tr>
<tr>
<td>5</td>
<td>The Delhi Stock Exchange Association Ltd., New Delhi</td>
<td>09.12.1957</td>
</tr>
<tr>
<td>6</td>
<td>The Hyderabad Stock Exchange Ltd., Hyderabad</td>
<td>29.09.1958</td>
</tr>
<tr>
<td>7</td>
<td>Madhya Pradesh Stock Exchange Ltd., Indore</td>
<td>04.12.1958</td>
</tr>
<tr>
<td>8</td>
<td>Bangalore Stock Exchange Ltd., Bangalore</td>
<td>16.02.1963</td>
</tr>
<tr>
<td>9</td>
<td>Cochin Stock Exchange Ltd., Ernakulam, Cochin</td>
<td>10.05.1979</td>
</tr>
<tr>
<td>10</td>
<td>U.P. Stock Exchange Association Ltd., Kanpur</td>
<td>03.06.1982</td>
</tr>
<tr>
<td>11</td>
<td>Pune Stock Exchange Ltd., Pune</td>
<td>02.09.1982</td>
</tr>
<tr>
<td>13</td>
<td>The Gauhati Stock Exchange Ltd., Gauhati</td>
<td>01.05.1984</td>
</tr>
<tr>
<td>14</td>
<td>Kanara Stock Exchange Ltd., Mangalore</td>
<td>09.09.1985</td>
</tr>
<tr>
<td>16</td>
<td>Bhuwneshwar Stock Exchange Ltd., Bhuwneshwar</td>
<td>05.06.1989</td>
</tr>
<tr>
<td>17</td>
<td>Jaipur Stock Exchange Ltd., Jaipur</td>
<td>09.11.1989</td>
</tr>
<tr>
<td>18</td>
<td>Saurashtra Stock Exchange Ltd., Rajkot</td>
<td>10.07.1989</td>
</tr>
<tr>
<td>19</td>
<td>Over the Trading Counter Exchange of India (OTCEI)</td>
<td>August 1989</td>
</tr>
<tr>
<td>20</td>
<td>Vadodara Stock Exchange Ltd., Vadodara</td>
<td>05.11.1990</td>
</tr>
<tr>
<td>21</td>
<td>Coimbatore Stock Exchange Ltd., Coimbatore</td>
<td>18.09.1991</td>
</tr>
<tr>
<td>22</td>
<td>Meerut Stock Exchange Ltd., Meerut</td>
<td>20.11.1991</td>
</tr>
<tr>
<td>23</td>
<td>National Stock Exchange of India Ltd., (NSEIL)</td>
<td>November 1992</td>
</tr>
</tbody>
</table>

Another stock exchange has been incorporated in Kerala called the "Capital Stock Exchange Kerala Ltd., Trivandrum". It obtained the recognition of the Securities and Exchange Board of India in June 1999. It has been renamed as 'Trivandrum Stock Exchange'.

3.8 Over the Trading Counter Exchange of India (OTCEI)

Securities markets in developed countries are multi-tiered with an element of in-built competition among various layers. This prevents monopolisation of securities exchange and makes the markets more efficient. However, the situation has been altogether different because of the virtual monopoly enjoyed by stock exchanges till recently. The multi-tier securities exchange model was adopted in our country in October 1990 with the establishment of the Over the Counter Exchange of India. 17

The object of OTCEI is to provide an alternate market for the securities of smaller companies, public sector companies, closely held companies desirous of listing etc. It has been jointly promoted by the UTI, ICICI, IDBI, SBI Capital Markets Ltd, IFCI, GIC and Canbank Financial Services Ltd.

The Government has conferred it the status of a 'recognised stock exchange' under section-4 of the Securities Contracts Regulation Act. Consequently companies listed with OTCEI will practically be at par with companies listed on any stock exchange in the country.

The OTCEI is a 'floorless exchange' where all the activities are computerised - be it trading, billing, payments etc. The designated dealers of OTCEI operate through their computer terminals, which are hooked to a central computer. All quotes and transactions are recorded and processed here. The dealers are spread over the country and have access to the central computer. A transaction can be effected by entering the bid or offer in a dealer's computer counter. There is no particular market place in the geographical sense.18

Trading at OTCEI will be permitted only in respect of the securities of the listed companies. Listing may be obtained by - (a) companies with issued equity capital between Rs.30 lacs to 25 crores; (b) closely held companies interested in listing; (c) venture capital companies; (d) companies which are not listed on any other recognised stock exchange provided they offer to the public at least 40 percent of the issued equity or Rs.20 lacs, whichever is higher.19

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19 Ibid. 17.
The Securities Exchange Board of India (SEBI) relaxed norms for listing on the OTCEI during March 1995. The minimum post issue capital to be offered to the public to enable listing was lowered from 40 percent to 25 percent. SEBI also permitted finance and leasing companies to get listed on the OTCEI.

OTCEI promoters have been designated as 'sponsor members' and they alone are entitled to sponsor a company for listing here. Before recommending a company for enlistment, such members have to carry out the appraisal of the project to ensure its technological and financial viability. They also ensure that all Government rules and regulations have been complied with. They are required to clarify the investment worthiness of the company and its project. Finally, they would value the shares of the company, comply with SEBI guidelines for the issue of securities and manage the public issue. OTCEI requires such sponsor members to act as 'market makers' in that scrip for at least 3 years.

OTCEI is intended to provide easy marketability and better liquidity of securities to an investor. Besides, it also offers facilities for transfer of shares listed here. The investor can submit the transfer documents at any of the OTCEI counters in the country. There is total
transparency and fairness so far as the deals are concerned. It takes lesser time to finalise a deal too

3.9. National Stock Exchange of India Ltd. (NSE)

There is need for special mention of NSE since it is a new concept different from conventional stock exchanges. The new system opens upto investors a whole new world in stock market operations. It provides a single, nation-wide market for securities. It has wide reach covering the entire length and breadth of the nation.

NSE was set up recently and commenced its operations in the capital market segment on 3rd November 1994 in Bombay. The idea of setting up a National Stock Exchange was first mooted by the committee set up under the then chairman of the Unit Trust of India, Mr. M.J. Pherwani. The immediate impetus for establishing NSE was provided by the stock scam of 1992 in which close to Rs.5000 crore was cleaned out of the system.

The debt market was neglected and speculation and manipulation of the markets became the order of the day. The then prevailing system of stock exchanges failed to cater to the needs of the genuine investors. The study group, therefore, recommended the

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setting up of a new national stock exchange at New Bombay and National Market system. The NSE was established by the IDBI and other all India financial institutions in November 1992 with a paid up equity capital of Rs.25 crores.

Today, the NSE has become a national market for shares, public sector undertaking bonds, UTI units, Debentures, Treasury Bills and Government Securities. The NSE made a radical departure from the prevailing system by throwing open its exchange to whosoever fulfils the norms set by it. Thus, instead of having card-holding members, as in the case of other exchanges, the main criterion for its members is their network and their past record. The NSE has today about 1000 brokers trading in various segments.

There is no trading floor of the exchange as in the case of other stock exchanges. It has a country-wide screen based on-line trading system. Each member of the NSE will have a computer in his office, which will be connected to the central computer system of NSE in Bombay. In this system bids and offers are settled electronically. The members of NSE are linked to the mainframe computer through satellite dishes, leased data line or telephone lines.
3.9.1. Membership

The National Stock Exchange has two types of members:

a. Participating trading members: They are allowed to trade only on their behalf.

b. Intermediary trading members: They deal on behalf of their members.

3.9.2. Settlement System

The trading system of the NSE is known as NEAT (National Exchange for Automated Trading). The NSE has two market segments, namely, the Wholesale Debt Market (WDM) and the Capital Market (CM). WDM is commonly referred to as the money market where pure debt instruments such as Government Securities, treasury bills, commercial paper, public sector bonds, corporate debentures, certificates of deposits etc. are traded. The Capital Market segment covers trading in convertible debentures, equities, etc.

The NSE operates on an account period or a periodic settlement cycle. The trading period starts on Wednesday of every week and ends on Tuesday of the following week. All trades concluded during a particular trading period are settled during the
next week. The NSE operates clearing house for managing settlement of securities. The exchange has also tied up with the HDFC Bank to provide custodial services to trading members.21

3.10. Cochin Stock Exchange (CSE)—A Profile

The Government of India announced the new economic policy in mid 1991. Kerala was one of the earliest states to bring out a comprehensive statement of industrial policy. The objective of this policy initiative was to give a new direction to the industrialisation efforts of the state.

Despite having a very high physical quality of life, skilled manpower, good infrastructure and adequate power, Kerala's efforts at industrialisation had not been successful when compared to other states. The new policy initiative was therefore aimed at identifying the lacunae in the existing system and to suggest remedial measures.

The basic thrust of the new industrial policy was to reorient the priorities of the Government. The Government had hitherto followed a policy of industrialisation based on starting new Public Sector Units. However, our experience has been that 65 percent of the Public Sector Undertakings in Kerala have been regularly incurring

21 Ibid 11, p.154.
losses. Secondly, the return on capital invested has been very poor. The Government, therefore, decided that the industrialisation of the state could not be based on merely expanding the size of the public sector. Increasingly, the private sector will have to play a more dominant role.

The Thrust of the new industrial policy can be broadly divided into two:

i. Restructuring of Public Sector Units so as to make them efficient, competitive and profitable.

ii. All-out efforts through a variety of measures to increase the rate of private investment in Kerala.

Realising the necessity for stimulating private investment in Kerala, the Government has taken a large number of policy initiatives. They include: tax and duty concessions, investment promotion, simplification of procedures, industrial relations and infrastructure development.

In this scenario, stock exchanges have a decisive role to play in activating capital formation and investment. It will be injustice if we underplay the role of the Cochin Stock Exchange in this respect.

The statistics in the late 80s revealed that investment in corporate securities by an average Keralite was lower than the national average. It was just because of the fact that the State lacked a mechanism to make the public aware of the opportunities that existed in equity investment. To bridge this gap, the Cochin Stock Exchange was established which eventually blossomed into a perfect financial market.

CSE is the only recognised stock exchange in Kerala, incorporated with the prime objective of evolving a vibrant and dynamic equity cult among the investors of Kerala and also to lend pace to the industrialisation process in the state. Established in 1978, with 14 members, today it boasts of 508 members and 240 listed companies. The Exchange is a non-profit making body recognized and functioning under the Department of Economic Affairs of the Ministry of Finance.

3.10.1. Membership in CSE

Over the years, the membership of the CSE has grown from 14 in 1978 to 508 in 1995. This is explained by the following table.

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Table T3
Membership Profile in CSE

<table>
<thead>
<tr>
<th>Year</th>
<th>Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>14</td>
</tr>
<tr>
<td>1981 - 1982</td>
<td>32</td>
</tr>
<tr>
<td>1984 - 1985</td>
<td>52</td>
</tr>
<tr>
<td>1986 - 1987</td>
<td>112</td>
</tr>
<tr>
<td>1987 - 1988</td>
<td>340</td>
</tr>
<tr>
<td>1989 - 1990</td>
<td>474</td>
</tr>
<tr>
<td>1995 - 1996</td>
<td>508</td>
</tr>
</tbody>
</table>

Source: CSE Public Relations Dept.

Figure F1

Membership Profile in CSE
3.10.2. Employment Potential

The exchange provides business opportunity or employment to 508 member brokers, 800 authorised assistants, 5000 sub-brokers and 105 stock exchange staff. Besides this, each broking firm employs additional staff for the smooth conduct of business.

3.10.3. Governing Board

The CSE is administered through a 13 member Governing Board comprising of elected and nominated members. The members of the Exchange elect six members to the Board including the President, Vice President and a treasurer. Three prominent members on the Board nominated by the Central Government constitute the public representatives. The Central Government can also nominate three more people to the Board. The Executive Director appointed by the Securities and Exchange Board of India is the functional head of the Stock Exchange.

3.10.4. Trading System

Earlier the Exchange had the traditional out-cry system of trading. At present trading takes place on the screen based trading system, which is known as the Cochin On-Line Trading System.

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21 Public Relations Department, CSE.
(COLT) The COLT system is networked through Local Area Network to a Main Servor. Each member is given a workstation in the Trading Centre. It has the following features:

1. It facilitates trading in equities, debentures, with provision to introduce options and futures when required.

2. It meets the current business and technology requirements.

3. It accommodates new functions and increased work loads.

4. It ensures competitive advantage in the form of low cost per trade.

The services of the on-line trade system are also planned to be extended to the various investor service centres of the CSE, subject to the approval from the Securities and Exchange Board of India. The new system has brought in speed and transparency in the dealings of stockbrokers. This is in line with achieving the objective to become a professionally managed, investor-friendly and fully automated stock exchange.

The trading starts at 10 a.m. and ends at 3.30 p.m. each day. The Exchange follows a market index known as the Cochin Stock Exchange Index. The CSE index acts as a barometer of market activities. For analysing the market trend the CSE provides software packages to its members.
3.10.5. Settlement Cycle

As per directions from the SEBI for creating uniform settlement cycle, the Exchange has changed the 'settlement cycle' from Tuesday to Monday representing five trading days. The pay-out shall be released on the Monday which comes subsequent to the last trading day of the weekly settlement period. However, there is provision for a member to collect the pay-out on the following Tuesday itself. For this purpose the member has to make all his deliveries of securities in time.

3.10.6. Margin Money

The Cochin Stock Exchange follows an Advanced Margin System. This means the margin money on transactions of brokers is collected prior to the execution of orders. If there is no sufficient margin money deposited by the broker, the transaction will not be entertained. With the enforcement of efficient margin system and surveillance, the CSE has successfully prevented defaults.

3.10.7. Subsidiary Company

The CSE has started recently a subsidiary company called Cochin Stock Brokers Limited (CSBL) to take membership in the Bombay Stock Exchange and National Stock Exchange. The membership has been approved and the trading will commence soon.
3.10.8. Investor service Centres

Continuing with its trend-setting performance, the CSE inaugurated the first Investors' Service Centre at Trichur. This was a step towards fulfilling a long-cherished goal of the CSE to multiply business and generate employment. It had the plan to open Investor Service Centres at all the major financial centres of Kerala. Seminars and study classes are conducted to update investors about stock market activities.

3.10.9. Trading Volume

The annual turnover of the exchange for the last ten years showed fluctuating trend as shown in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Turnover (Rs. In Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991 - 1992</td>
<td>5837.00</td>
</tr>
<tr>
<td>1992 - 1993</td>
<td>4127.00</td>
</tr>
<tr>
<td>1993 - 1994</td>
<td>3600.00</td>
</tr>
<tr>
<td>1994 - 1995</td>
<td>2731.40</td>
</tr>
<tr>
<td>1995 - 1996</td>
<td>2682.04</td>
</tr>
<tr>
<td>1996 - 1997</td>
<td>2839.31</td>
</tr>
<tr>
<td>1997 - 1998</td>
<td>3775.93</td>
</tr>
<tr>
<td>1998 - 1999</td>
<td>1841.91</td>
</tr>
<tr>
<td>1999 - 2000</td>
<td>800.73</td>
</tr>
<tr>
<td>2000 - 2001</td>
<td>385.16</td>
</tr>
</tbody>
</table>

Source: Public Relations Dept. CSE
The turnover touched the maximum level of Rs.5837 crores in 1991-92. Thereafter it was showing a declining trend. In the financial year 2000-2001, the turnover touched the bottom level of Rs.385.16 crores. All regional exchanges are reported to have shown a declining turnover.

Today, the CSE is a member of the recently introduced Inter Connected Market System (ICMS). The participating Stock Exchanges are linked up together to form a national grid, through V-sat Communication Channels. Investors all over the country benefit from this wide market network.

In view of the CSE’s objective to impart scientific knowledge to those who wish to pursue a career in the Capital Market, it started the certificate course on “Capital Market Operations in India” in association with the School of Management Studies (SMS) of Cochin University of Science and Technology. Based on various statistical surveys on investor awareness, the CSE conducts seminars and training programmes at various places across the state to educate the investors about the capital market operations in a time bound manner.

For speedy redressal of the investors’ complaints, the CSE has constituted four Statutory Committees approved by the SEBI, namely the Grievance Committee, Arbitration Committee, Disciplinary Committee and the Default Committee.