CHAPTER-II
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HISTORY OF CAPITAL MARKET IN INDIA

Different legislative committee reports before the independence and after the independence have tracked the evolution of the Indian capital market. They recorded the historical events pertaining to the development of the Indian capital market. The history and development of Indian capital market is divided into two major parts i.e. Pre-independence period and post-independence period.

1. Pre-Independence Period

The history of capital market in India started in the eighteenth century with the entrance of the East India Company and the beginning of American civil war in the American sub-continent. American civil war was fought from 1861 to 1865 in the United States after several southern slave states declared their freedom and formed the Confederate States of America. In same decade, the opening of the Suez Canal led to a remarkable increase in the export of cotton to the Europe from United States. During the period of cotton and other trades, many companies were formed and registered under the British Companies Act, 1844. To fulfil the financial need of companies, many banks emerged to provide money to the companies. But American civil war and the European battle disturbed the export of the cotton from America to the United Kingdom and other parts of the Europe. It diverted the mind of joint stock companies to the Indian cotton market.

In year 1861, Bombay was the know place for the supply of cotton and securities trade centre for many companies. It created attraction to the Indian market, which triggered the share trading in India. During this period, stock trading was limited to the stockbrokers and they used to trade under the banyan tree in front of
the town hall in Bombay. In year 1875, they formed an informal association named as Native Shares and Stock Brokers Association. As soon as the American civil war stopped cotton supplies to Lancashire, prices of Indian cotton went up to record price. It brought a large amount of capital to the Bombay cotton dealers. Under the good market conditions, a large sum of capital came into the shares of joint stock companies floated in Bombay.

In the mid of the 19th century joint stock companies came into existence. It was to transfer small savings from the household to the companies by issuing shares in return to investors. Initially, these joint stock companies carried unlimited liability with shares. The investors in the joint stock company were controlling the management group through their representatives at the Board meetings and other company meetings. There was no close relationship between the management of the company and the investors. This was the reason for failing of the companies and the loss of the capital invested into it. Unpaid creditors started tracing shareholders to recover their lend money in the company. Then, the concept of limited liability was introduced in joint stock companies to safe company from the failure. The concept of the ownership was separated from the management of the company affairs. It created an investor's attraction to the joint stock companies and they started investing again in the joint stock companies.

Several of these good market conditions were of an unstable nature, but share dealings were becoming popular among traders. The market rise certainly exploded in the year 1865, several joint stock companies failed and ruthless depression in the market was followed. However, the development of liquid capital had assured permanent results like a normal market in securities trading was one of them. Corporate venture made an important characteristic in the Indian

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66 Ibid.
financial system after the World War-I. In 1914-15, there were 2,545 joint stock companies in India with a total paid up capital of Rs. 81 Crores. In 1939-40, the number of companies rose to 11,372 and the paid-up capital to Rs.303.7 Crores and the figure rose to 14,859 in 1944-45 and the total paid up capital was 388.9 Crores.

With the development of capital market, the history of market reforms started with Cotton fraud bill 1867, Indian Securities bill 1885, Sir Wildfrid Atlay Committee Report 1924, The Bombay Securities Contract Control Act, 1925, Sir Morison Enquiry Committee Report 1937 and P J Thomas report on the Regulation of the Stock Exchanges in India 1948. On 6th October 1922, a committee named Bombay Stock Exchange Enquiry Committee constituted by the legislative council of Bombay on market speculations. The committee was constituted to conduct an enquiry into the constitution, custom, practise, rules, regulations, methods of business of the Native Shares and Stockbrokers Association of Bombay. It recommended major reforms related to the functioning of the association and protection of the public. The report of the committee had observed:

“For the native Share and Stock Brokers Association of Bombay the years which immediately preceded and followed the termination of the war have been troubled and unquiet and some have seen in the speculation that was rife in the City of Bombay a parallel with the years of the American Civil War. Rising prices attracted the ignorant to speculation. A comer in the market, once an event of rare occurrence, became rare no longer. The manipulation of the market was in practised

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68 Committee was appointed to examine and report on the organisation and the methods of working of Native Shares and Stockbrokers Association of Bombay to consider any modifications are desirable in the interest of the public and to make recommendations.
hands, and many saw in a few months the
dissipation of the savings of many years."69

Further, the committee also commented on the working of the
Bombay Stock Exchange as:

"There is in frequent fixing of prices by the
Committee of Management a more serious cause
of criticism and complaint and the method
devised by that Committee to combat corners, an
undoubted evil in any market, has encouraged
rather than checked their growth. We also think it
is a matter of regret that Association did not
recognise in the system and practice of sub
broker, as established in Bombay, a grave danger
to the public.70

Further, Sir Atlay had also commented on the Native and
Broker Associations 1924 while submitting the enquiry report as
under:

"The stock and share market is a vital factor in
the economic life of progressive nations. Order
and confidence are equally essential elements in
its continued prosperity and growth".71

Therefore, this Atlay enquiry committee72 has recommended the
following guidelines for the better market practices and some of them
are summarised as under:

i. The rules should provide for the consideration of
complaints by the public.

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69 Sir Wilfrid Atlay, Report on Bombay Stock Exchange Enquiry Committee, 1924
70 ibid
71 ibid
72 The committee was constituted by Government Resolution No. 2628, in the Finance Department, dated 14th September 1923. The members of committee were – Sir Wilfrid Atlay (Chairman), Sir Fazulbhoy Currimbhoy, Sir Purshotamdas Thakurdas, Mr. R. Lindsay, Captain E V Sassoon, Mr. Bhulabhai J Desai, Mr. Pherozeshah M Dalal, with Mr. G Davis (ICS as secretary). Mr. Bhulabhai J. Desai submits a minority report.
ii. The disciplinary rules of the Association should be strengthened and rigidly enforced.

iii. The dates of general meeting should be altered.

iv. The Board should retire annually and should be called the Committee of Management.

v. The Arbitration Committee should be abolished and in its place, the arbitration by two members of the stock Exchange nominated from a panel of arbitrators should be substituted.

vi. The secretary should be paid and should not be a member of the Stock Exchange.

vii. The partnership rules should be rigidly enforced.

viii. The public should be totally excluded from the Stock Exchange until such time as a new building and gallery is provided.

ix. The hours of business should be extended.

x. An annual declaration by members as to the class of business they propose to undertake should be made.

xi. The use and stamping of a uniform form of contract note should be enforced.

xii. A minimum scale of commission should be fixed.

xiii. Companies should, as far as possible, use a common form of transfer.

xiv. Blank transfer should be abolished on the reduction of the stamp duty.

xv. Sub broker should be totally abolished.

xvi. Rules 26, 26(k) and 26(kh) relating to corners of the official representation of the Association should be repealed.

xvii. A daily official list should be published.
The regulations relating to the admission of companies to forward dealings should be altered.

After this enquiry report, action by the Bombay Government was under consideration but the market speculation again developed on a large scale in Bombay. This led to a market crash in 1925 and it was followed by a great panic in the stock exchange. This panic in the market strengthened the hands of Government for taking action to control forward dealings and the authority to control the rule making power of the stockbrokers Association. In return, the Government was ready to grant the association by charter a monopoly of organized trading in securities. But, the association of brokers did not accept the offer. The Government had seriously doubted the wisdom of the refusal by the association.

Therefore, the Government had no alternative but to enact legislation for safeguarding the interest of the public. Accordingly, the Securities Contracts Control Act, 1925 was passed by which all contracts on the exchange other than ready delivery contracts became void unless made subject to rules approved by the Government. The Act came into operation in the city of Bombay on January 1, 1926. Soon afterwards, the Native Share & Stock brokers' Association submitted a complete set of rules and regulations for the approval of the Government. The most important rules were:

(i) The Board of Directors of the Association has the power to intervene in case of emergencies like corners, crises etc.

(ii) No additions and alterations to or rescinding of the rules could be made without the permission of the Government. (Rule 335)

ibid at p. 19
After some deliberation, Government on 14th May 1927 sanctioned the rules proposed by the association. Thus, the powers of control assumed by the Government were not very useful as shown74.

In year 1927, stock exchanges were recognised for the first time under the Bombay Securities Contracts Control Act, 192575. In the beginning of stock-trading, it was limited to the company owners and stockbrokers only. The controlled and planned security market in India is a relatively latest improvement. The main reason of slow development and unorganised form of the Indian capital was the no interest of the British Government in the Indian Market. Most of the companies were dependent on the London capital market for the funds to trade. In the year 1933, barely three cities in India had stock exchanges. These cities were Bombay, Calcutta and Ahmedabad. In Calcutta stock exchange there was a quantity of trade in securities but at any market rate. The existing newspapers only gave prices of the securities to the public. But, for a long time security trade took place to government paper and a small number of bank shares only76.

The Wall Street crash of 1929 in the United States and the world economic crisis had their repercussions on the Indian stock exchanges. The Indian political turmoil's between the years 1930-32 also had serious consequences on business activity. Again from 1934, economic conditions of the market began to improve. Prices again tended to move upward and speculative activity revived in the market. Taking advantage of this improvement in business conditions, new stock exchanges were started in several cities. The Madras stock exchange was revived in 1937, with a growing trade in plantation and mill shares. The rapid increase in the number of textile companies in and around Coimbatore and the floatation of many plantation ventures in south India gave strength to the revived Madras stock

75 "An act to regulate and control certain contracts for the purchase and sale of securities in the City of Bombay and elsewhere in the Bombay Presidency."
exchange. In Lahore, a new stock exchange was started in 1934 and the Punjab Stock Exchange Ltd. incorporated in 1936. In 1939, the Ahmadabad Share & Stock Brokers’ Association was recognised by the Government of Bombay under the Securities Contracts Control Act, 1925. It rules were reframed on the pattern of the Bombay Stock Exchange. Revived stock exchanges set up in Calcutta and Bombay. In Calcutta, where the old stock exchange was carrying only cash business, a section of the public felt the need for forward dealings and to meet this requirement a new stock exchange named The Bengal Share and Stock exchange Ltd. was established in 1937. This adopted forward trading in certain securities based on monthly settlements. In Bombay, a new stock exchange limited by guarantee under the title of the Indian Stock Exchange Ltd. was started in February 1938 with an influential Board of Directors, consisting of Sir Chunlilal B. Mehta and others.

The revival in stock exchange business after 1934 in Bombay brought to the test the effectiveness of the Bombay Act 1925. Speculators became active again and there was boom created in the share prices. However, the boom soon burst in April 1935. In 1936, this crisis was followed by a fresh crisis resulted from the manipulations of professional jobbers and then after forward markets were suspended from the market by the Government. Thus, in spite of the Bombay Act 1925, there was market crisis in the following years 1928, 1930, 1933, 1935 and 1936. Therefore, public criticism became noisy against the Bombay Stock Exchange and against the Native stockbrokers Association. By the resolution of the Government, a committee was appointed for the enquiry. The committee gave a general invitation to association of persons, wishing to make proposals for the reorganization of Bombay stock exchange or for imposing the method of working. It was requested to send in written statements of their views to the secretary of the committee. This led to a second

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enquiry in 1937 by a committee presided over by Mr. W B Morison, who came from the London Stock Exchange.

During the World War-II, fluctuations arose in the security market in India. But, with the large increase of profits to the companies due to war orders, share prices also improved and many new stock exchanges and share bazaars had came up for meeting the new market situation. After the outbreak of war, share prices in the market were moved higher. But, with the fall of France in May 1940, stock exchanges received a rude shock. As a result, the Calcutta Stock Exchange remained closed for six weeks. On 14th June 1940, forward trading was closed on the Bombay Stock Exchange and minimum prices were fixed for all shares. The control by the Government on the market speculation led to the serious problem in the year 1946 i.e. people were having money but not a place to invest and no business for many banks which were emerged to finance the share trading. The crisis that followed was serious, especially in Calcutta where a large number of mushroom banks that had been making liberal advances on shares came under pressure and had to close their doors. Speculation in unofficial markets at Calcutta and inappropriate bear selling in the Bombay market brought about almost a landslide in share prices in May 1947.

Stock market activity in India reached on its high-water mark during World War-II. The number of stock exchanges increased from 7 to 21. In many cities street markets and many outside brokers sprang up to participate in the fast expanding trade in securities. When opportunities for speculation in commodities were narrowed down by the promulgation of the Defence of India Rules, money diverted into stock market speculation. To prevent this, Defence of India Rule 94C was implemented in September 1943, but this had not led to desired effect. Under the Constitution of India that came into force on

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78 ibid., at Para 14
79 ibid., at Para 15
January 26, 1950, Indian stock exchanges and forward markets came under the exclusive authority of the Central Government of India.

2. Post-Independence Period

The Indian capital market has a lengthy history of over one century and is presently passing through the transforming stage. The Indian capital market witnessed some significant regulatory and working changes during the period of eighties both in the primary, secondary segments. To curb the problem of speculations in the market, Indian Government had enacted the Securities Contracts (Regulation) Act in 1956. It came into force to get better participation of the individual investors in the market and for the regular functioning of the market. The objective was to prevent undesirable transactions in securities by regulating the business of dealing. Due to war and economic slowdown, the Government banned many market practices like forward trading and badla transactions in 1960. Badla is the price payable by the buyer to carry over his speculative purchases to the next trade settlement. This system helps traders to carry forward businesses without taking deliveries of stocks purchased. It helps to build large volumes on the exchanges and impart liquidity in stocks. In the year 1963, introduction of the Gold Control Act, 1968 led to another hindrance to the stock market. In the period of a market slowdown, financial institutions like Life Insurance Company and others turned up as sentiment booster investors. In 1970, Badla transactions started with few modifications and again boosted the market.

Capital market jerked with many ordinances related to the market operations and compliance with the Companies Act, 1956 like the dividend restriction ordinance in the year 1974. It was to restrict the distribution of the dividend by the companies. It was restricting the payment of dividend by companies to 12 per cent of the face value or one-third of the profits of the companies that can be distributed as
computed under Section-369 of the Companies Act, 1956 whichever was lower. It reduced the market capitalization of the Bombay Stock exchange nearly 20%. In year 1973, the Foreign and Exchange Regulation Act was introduced and many multinational companies went out of the Indian market. Under the Act, companies had to dilute their majority of the stake in the domestic companies in favour of the public. It gave an opportunity to the public to invest money in the multinational companies like Hindustan lever, Colgate etc. In 1980s, major changes in the primary market came with the introduction of convertible debentures and public sector bonds. Due to these major changes in the primary market, investors started participating in the financial market and increased the market growth.

After the independence of the nation, the Indian capital market was not vibrant and no point of attraction to the public. The Indian Government was busy with reforms in different sector like agriculture and public sector undertakings. Retail capital investment started coming in the market in the period of 1980, when Reliance company came into the market with different new issues of companies. They issued public sector bonds and attracted many small investors. Likewise, many other companies issued bonds like Larsen & Toubro etc. The decade of the 1980s was characterized by an increase in the number of stock exchanges, listed companies, paid up capital and market capitalization.

In the year 1984, fiscal budget reduced the estate duty and the changes in the Companies Act, 1956 brought money in the primary market. In terms of regulator in 1980s, only the Controller of capital issues was supervising and controlling the capital market in terms of composition, interest rates, pricing, allotment and offering of new issues. In year 1991, market reforms created interest of the retail investors in the market. This era of liberalization saw many companies listed on the Bombay Stock Exchange and started trading in company shares.
Technically, the era of the 1990s came with stormy time to the Indian capital market. During the period, Indian stock market faced first major stock scam i.e. Harshad Mehta cheated the market. The second stock scam was headed by Ketan Parekh. This was the time when information technology companies boomed the market. The Indian capital market is full of securities frauds like Harshad Mehta Scam, Ketan Parekh Scam, Satyam Scam etc. Major securities frauds came into the light and gave birth to the need of strong reforms in the financial market. In year 1991, Shri. P. Chidambaram as a finance minister ignited the process of liberalization and market reforms. He introduced lifting of taxes on long-term capital gain and imposed taxes on the short turnover tax on the capital gain. It attracted the small investors and raised the Sensex up to 13000 points.

In year 1992, Securities and Exchange Board of India came into existence to monitor, control and to regulate the Indian capital market and Capital Issue (Control) Act, 1947 was repealed. Since 1947, The Capital Issue (Control) Act, 1947 had been playing an important role in the functioning of the Indian capital market. The Controller of Capital Issues in the Ministry of Finance and Department of Economic Affairs administered all its working related provisions. After independence, it was in force with some changes as a method of control of the companies. It was to ensure proper utilization of capital resources for the national interest. Under the Act, any firm wishing to issue securities had to obtain approval from the Central Government, which also determined the amount, type and price of the issue.

Securities and Exchange Board of India was set up as a watchdog to all operations in the Indian financial market i.e. foreign institutional investors, stock-trading mechanism, stock exchanges, mutual funds etc. The main objective of SEBI formation was to check the functioning of the stock exchanges, which was full of shortcomings like long delay, lack of transparency in procedure,
vulnerability to price rigging and insider trading. It has powers to register and regulate all market intermediaries. In case of the violation of the laws, it has power to pronounce sanctions. SEBI has full independence and power to regulate and develop a systematic securities market. SEBI was powered to check the functioning of the mutual funds and it had prepared one report on each inspection. Inspection report included discrepancies in the every mutual fund. Then the eligibility norms for the registration of the brokers and sub-broker have been fixed by the Government. SEBI is monitoring the compliance by the brokers with the eligibility norms. The Government of India has taken various steps in the process of reforms during the year 1991-1993. India's official Economic Survey 1992-93, observed that the process of reforms in the capital market:

... needs to be deepened to bring about speedier conclusion of transactions, greater transparency in operations, improved services to investors, and greater investor protection while at the same time encouraging corporate sector to raise resources directly from the market on an increasing scale.

The Indian companies were allowed to raise capital from the international capital market via Euro-equity issues. The most important initiative to enhance competition was the free pricing of initial public offering and the formulation of guidelines related to new issues. It includes the disclosure of all relevant facts by the issuer company to the public and the risk involved in the product.

After Harshad Mehta fraud, Indian capital market started with a collection of reforms covering primary and secondary markets for equity, debt segments and foreign institutional investment in India. The major objective behind the primary market reforms was to

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facilitate greater flexibility to the issuers and strengthening the criterion for approaching the securities market. Indian reforms in the secondary market were focused on improving market transparency in trades, integrity in operations and well-equipped infrastructure to facilitate the participants. In 1996-97, the eligibility criteria for the issuers of the securities to participate in the market with financial instruments were strengthened. At the same time, Securities and Exchange Board of India took various corrective measures to make available issuers with more elasticity in the issue process of the financial instruments in the market. In connection with the reform process, rigorous and thorough disclosure norms prescribed by the regulators, the better clearness in the drafted initial public offering prospectus and separate criterion for finance companies were elaborated. Simplification of issue process has been adopted like Applications Supported by Blocked Amount\textsuperscript{83}, e-filing, compressing timelines etc.

For clearing and settlement of the securities, two bodies had been formed in the year 1996 i.e. The National Securities Clearing Corporation Limited and National Securities Depository Limited. National Securities Clearing Corporation Limited (NSCCL) provides clearing, settlement, risk management, central counterparty services. It is a guarantee of completion of certain transactions for virtually all broker-to-broker trades involving equities, corporate, municipal debt, American depositary receipts, exchange-traded funds and unit investment trusts. Likewise, National Securities Depository Limited (NSDL) is the first and largest depository in India. It established in August 1996 and promoted by institutions of national reputation responsible for economic development of the country.

The settlement of trade with physical paper caused enormous problems in the Indian securities market. Higher trading volumes, burgeoning paper hampered settlement cycles and problems were

\textsuperscript{83} SEBI Circular no: CIR/CFD/DIL/8/2010 dated October 12, 2010
forcing the markets to combine few settlements together. This increased market risk. There were instances when even some stock exchanges closed trading for a day or two in order to complete the pending settlement work. Unscrupulous elements in the market place used to take undue advantage of paper movement by forging certificates, creating a fake certificate and adopting to postal interceptions. Investor confidence in the market often used to get shattered due to bad paper and bad deliveries. Share transfers used to take months. An investor who bought the shares and anticipating to sell them when share prices rise. They had to watch prices to go up. It sometimes subsequently falls. Thus, investor quite often loses opportunities in the market. After many market reforms, screen based trading system has been launched to ease the pressure of the investor to coordinate with broker for every trade. Under screen based trading, every investor can directly punch the order to the system and execute the order in front of him on simple clicks with the help of intermediaries i.e. stockbroker.

In the year 1984, a committee was constituted under the chairmanship of G.S. Patel on organizational structure, management of stock exchanges and the protection of investors. The major recommendations of the committee were:

(i) All stock exchanges to follow a standard model of management by registering under the Companies Act, 1956. Under Section-25 of the Act with limited by guarantee.

(ii) Infusing professionalism into the organisational system through non-brokers representation in the stock exchange managing committee, and the executive director and president to have no direct link with trading activity so as to prevent insider trading.

(iii) Establishing an independent supervisory body modelled on the Securities and Exchange Commission of U.S.A. to monitor the market. This was the genesis of the SEBI.

(iv) Prescription of the minimum education qualification of XII standard and certain diploma courses for the members

(v) Raising the training and qualifying levels of new members and assistants

(vi) Introducing odd lot dealing, prohibiting non-bank finance for "Badla" dealers and banning all option contracts

(vii) Checking over trading, up front margin trading

(viii) Introduction of provisional listing of new issues to check the chain clandestine market and high premium charges caused by inordinate delay in listing procedures

(ix) Cuts in underwriting commissions from 3 percent to 2.5 percent to reduce issuer cost

(x) Publication of half yearly unaudited accounts in the media to keep shareholders and prospective investors informed as a means of an efficient disclosure practice.\(^85\)

In year 1991, Narasimham Committee was constituted for the banking and capital market regulation reforms. The committee suggested that there should be no need of prior approval for the issue of capital and office of Controller of Capital Issues should be abolished. It also supported foreign portfolio investment in the capital market.

In year 1995, another committee was constituted under the chairmanship of Y.H. Malegam and the recommendations of the committee on the public issues were:

(i) Disclosing in prospectus the actual project expenditure, sources of finance expenditure, year wise break up, residual expenditure and details of bridge loans

(ii) Transparent accounting procedure by making clear statement in the prospectus on failure to make provisions, for losses in previous years, change in accounting policy, financial disclosures must include accounting ratios such as earnings per share, return on net worth, and net asset value per share

(iii) Mandatory disclosure of technology, market, competition, and managerial competence

(iv) Disclosure needs to be of aggregate holding of the promoter’s group, information regarding other ventures promoted by the promoter

(v) Other recommendations includes disclosure of such information as stock market data, litigations and defaults and adverse events, justification for price, technical and financial collaboration agreements, management’s analysis, capitalization statement, buy-back and stand-by arrangements, specialized agency groups, major shareholders, abridged prospectus, advertisement, right issue, responsibility for adequacy and authenticity of disclosure, monitoring of used funds, small issues, pricing of issues, new items on mergers etc.\(^6\)

For the settlement and transfer of the securities, the Depositories Act was passed in 1996. In January 1997, the depositaries (Amendment) Ordinance, 1997 was circulated. It amended certain other statues to further facilitate the dematerialisation and book entry transfer of securities in the depository. It was especially for the securities of large financial

\(^6\) Dr.Gurusamy, *Capital Markets, 2E* (New Delhi: Tata McGraw-Hill Education. 2009) 89
institutions and public sector banks. The State Bank of India Act, 1955, the State Bank of India (Subsidiary Banks) Act, 1959, the Industrial Development Bank of India, 1964 and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 were amended in light of the ordinance. It was to facilitate the dematerialisation and transfer by electronic book entry of the shares of the State Bank of India, its subsidiaries and the Industrial Development Bank of India (IDBI). The ordinance also amends the Indian Stamp Act, 1899 to exempt transfers of units of mutual funds through an electronic book entry in a depository87. The main function of the depository Act was to regulate the functioning of the depositories and the process of dematerialisation of securities. It was to make the transfer of securities very easily from one investor to another. In year 1998, rolling settlement was started for the company’s investor whose securities were in dematerialised form88.

In the modern era of globalisation, corporate bodies require capital inflow for operation, expansions and the investor wants returns on his investments. To fill up this drawback, securities market has emerged with new technologies and financial instruments to fill the gap between the issuer and the investor. Securities market is a platform where buyers and sellers of securities can enter into an agreement to buy and sell shares, debentures, bonds etc. with the help of intermediaries.

The securities market enables all individuals, irrespective of their means, to share the increased wealth provided by competitive enterprises in return of their investments. The securities market permits investors who cannot carry a financial activity within their capital resources to invest whatever is individually feasible and


88 In April 2002, the Indian capital markets introduced T+3 rolling settlement cycle. The settlement cycle of T+3 under the Rolling Settlement System, was shortened further to T+2 rolling settlement, w.e.f April 01, 2003. Also, SEBI Circular No. MRD/Dop/SE/Dcp/Cir-18/2005 dated September 02, 2005
preferred in that activity carried on by an enterprise. On the other hand, investors who cannot start new project can attract enough investment form to make a start and continue to progress and prosper. In both the cases, investors who participate in the investment, share the result and profits. The banks and securities markets are two contending methods to channel investor’s savings into investment.

"The securities markets score over banks in the allocation efficiency, as it allocates savings to those investments, which have potential to yield higher returns. This unavoidably leads to higher returns to savers on their savings and higher productivity on investments to enterprises. Hence, to the extent economic growth depends on the rate of return on investments, securities market promotes economic growth."

Further, recognised stock exchanges means trading platforms recognised and approved by the Government of India and operated under stock-exchange bye-laws. Securities and Exchange Board of India governs stock exchange as a governing body. They are recognised by the Securities Contract Regulations Act, 1956. In India, National Stock Exchange and Bombay Stock Exchange are two major stock exchanges with listed securities under listing agreements. Bombay Stock Exchange is the oldest exchange in India with trading facilities. In the process of the reformative measure, membership of governing boards of Stock Exchanges was changed to include 50% non-broker representatives. A group was constituted by the SEBI to review and examine the structure of stock exchanges. Also, to examine issues involved in demutualising stock exchanges.

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90 Ibid., p1
Various preventive measures are taken to address the default risk in the market. Clearing corporations in the market emerged to assume counter party risk in case of trade defaults. Trade and settlement guarantee funds were set up by the SEBI to guarantee the settlement of trades at the end of the trading irrespective of default by the brokers. Guarantee funds provide full novation and work as a central counter party. The stock exchanges and clearing corporations monitor the positions of the brokers on a real times basis. Securities Contract Regulation Act, 1956 was amended in 1995 to lift the ban on options trading in securities and to assist market participants to manage market risks through hedging, speculation and arbitrage. The Securities Contract Regulations Act, 1956 was amended again in December 1999. It was to expand the definition of securities to include derivatives so that the complete regulatory framework governs trading of securities could apply to trading of derivatives. A three-decade old ban on forward trading, better known as BADLA, which had lost its relevance and was hindering to the introduction of derivatives trading, was withdrawn in 1995. In June 2000, Derivative trading started on two exchanges i.e. National Stock Exchange and Bombay Stock Exchange. The Government of India has notified the rules for the delisting Framework on 10th June 2009. At the same time, the Securities & Exchange Board of India has notified regulations connected with the delisting of securities. These rules provide the basis for voluntary as well as compulsory delisting\(^1\).

The enactment of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 and the Securities and Exchange Board of India (Prevention of Insider Trading) Regulation Act, 1992 improved the confidence of the retail investor in the capital market as well as the foreign institutional investors (FIIs). FIIs like mutual funds, pension funds and investment trust started investing in the market

\(^1\) Regulation 2(1) (viii) of the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009
after registration with the SEBI. In connection with reform process, takeover code, 1997 and corporate governance norms i.e. Clause 49 of listing agreements came to strengthen the confidence of the investor in the market. SEBI introduced regulations governing substantial acquisition of shares and takeovers.

Due to various policy reforms, companies can easily raise capital without any hindrance from the global capital markets with the help of various instruments like American Depository Receipts, Global Depository Receipts, Foreign Currency Convertible Bonds and External Commercial Borrowings. In the line of policy reforms, SEBI issued the SEBI (Buyback of Securities) Regulations in 1998, through which a company is permitted to buy back its shares from existing shareholders. Buyback of shares help in improving liquidity in shares of companies and helps corporate in enhancing investors’ wealth. The method of book-building process helps in price discovery and assists small investor to take an investment judgment. At present, the Indian capital market consists of all financial products as compared to the developed markets and gives a wider choice to the investor and the issuer of the securities. SEBI is continuously issuing orders, directions, and circulars to the intermediaries to protect the interest of the shareholders and to remove grievances of the shareholders from time to time. SEBI is also working to improve the market efficacy by the process of liberalization of investment process.

Narendra Jadhav, Development of Securities Market - The Indian Experience, available at http://www.drnarendrajadhav.info/newversion/drjadhav-data_files/Published-Papers.htm (Assessed on 22-11-2013)