CHAPTER V
THE EVOLUTION OF REGULATORY STRUCTURES IN INDIA

The appropriate combination of having seen various sets of approaches to the regulations in the last chapter, now a detailed study of the evolution of the regulatory structures in India will be undertaken in this chapter as this will form as one of the factors that impact the choice of regulatory model for India unified or multiple structure. Further in order to appreciate properly the functioning of various regulatory structures in India as it exists today, it is essential to understand how the financial markets evolved over a period of time. Understanding the historicity of various markets in the financial world in proper perspective would help understand the evolution of their regulatory structure. Hence, this chapter traces the existing markets to periods when they commenced and outlines their evolution.

It is said that the regulatory structures in India, especially in the case of the finance sector have evolved in the context of the evolution of the financial sector itself. The evolution of the regulatory structure for financial sector in India makes an interesting study.

5.1 EVOLUTION OF BANKING SECTOR:

The genesis of the emergence of the regulatory structure relating to the banking industry is rooted in the Banking Regulation Act, 1949. The very first bank that flowered in the banking sector was The General Bank of India in the year 1786 which was followed by Hindustan and Bengal Bank. With the advent of East India rule in India, the East India Company established the Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as totally independent units. They came to be known as Presidency Banks. However, all these were subsequently amalgamated in 1920 and thus was born Imperial
Bank of India. It was established as bank consisting of private shareholders banks, mostly European shareholders.41

It was only in 1865, for the first time, a bank consisting only of Indians, named, Allahabad Bank was established and subsequently, Punjab National Bank Ltd. was set up in 1894 by Indians with headquarters at Lahore. During the period commencing from 1906 to 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up.42

Before the Independence, i.e. the period between 1913 and 1948, the growth of the banking industry was tardy and banks went through bouts of problems as also periodic failures between 1913 and 1948. At that time, the banks were small numbering approximately 1100 banks. In order to streamline the functioning and activities of commercial banks, the Government came up with The Banking Companies Act, 1949 which later became Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India, as the Central Bank of the country was vested with authority to supervise banking sector in India.43

Subsequently, the Government of India initiated very important steps in the Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as

41 B.F Agarwal, COMMERCIAL BANKING IN INDIA AFTER NATIONALISATION-A STUDY OF THEIR POLICIES AND PROGRESS (classical publishing company. New Delhi, 1982)
43 Id
the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country.\textsuperscript{44}

Seven banks forming subsidiaries of State Bank of India was nationalized in 1960 on 19th July, 1969, major process of nationalization was carried out. In all, 14 major commercial banks in the country were nationalized.

Again, major Banking Sector Reform was carried out in 1980 with seven more banks. This step brought about 80\% of the banking segment in India under Government ownership.

The following are the steps taken by the Government of India to Regulate Banking Institutions in the Country:

- 1949: Enactment of Banking Regulation Act.
- 1955: Nationalization of State Bank of India.
- 1959: Nationalization of SBI subsidiaries.
- 1961: Insurance cover extended to deposits.
- 1971: Creation of credit guarantee corporation.
- 1975: Creation of regional rural banks.
- 1980: Nationalization of seven banks with deposits over 200 crores.

Nationalization of the banks instilled in public the confidence and hope in the system.

Again, the Government formed a Committee in 1991, under the chairmanship of M Narasimham, called Narasimham committee to review further reforms of the banking sector. This heralded many significant developments in the banking sector in the 1990s and 2000 onwards. Presently the country has a very

\textsuperscript{44} Supra note 28.
sophisticated technology driven banking sector such as ATMs, Phone banking and e-banking etc.\textsuperscript{45}

The foreign banks have entered the country in a big with their wide network of operations. The present buzzword in a highly competitive sector is the wooing the customers. Now the banking system has become more convenient and swift.\textsuperscript{46}

The financial system of India has shown a great deal of resilience. It is sheltered from any crisis triggered by any external macroeconomics shock as other East Asian Countries suffered. This is all due to a flexible exchange rate regime, the foreign reserves are high, the capital account is not yet fully convertible, and banks and their customers have limited foreign exchange exposure.\textsuperscript{47}

5.2 EVOLUTION OF CAPITAL MARKET:

The history of the capital market in India dates back to the eighteenth century when East India Company securities were traded in the country. Until the end of the nineteenth century, securities trading were unorganized and the main trading centres were Bombay (now Mumbai) and Calcutta (now Kolkata). Of the two, Bombay was the chief trading centre whereat bank shares were the major trading stock. During the American Civil War (1860-61), Bombay was an important source of supply for cotton. Hence, trading activities flourished during the period, resulting in a boom in share prices. This boom, the first in the history of the Indian capital market, lasted for a half a decade. The bubble burst on July

\textsuperscript{45}Id.
\textsuperscript{47}Id.
1, 1865, when there was tremendous slump in share prices.  

Trading was at that time limited to a dozen brokers. These stockbrokers organized an informal association in 1875-Native Shares and Stock Brokers Association, Bombay. The stock exchanges in Calcutta and Ahmedabad were formed later. The Bombay Stock Exchange was recognized in May 1927 under the Bombay Securities Contracts Control Act, 1925.  

In the post-independence period also, the size of the capital market remained small. During the first and second five-year plans, the government’s emphasis was on the development of the agricultural sector and public sector undertakings. The public sector undertakings were healthier than the private undertakings in terms of paid-up capital but their shares were not listed on the stock exchanges. Moreover, the Controller of Capital Issues (CCI) closely supervised and controlled the timing, composition, interest rates, pricing, allotment, and floatation costs of new issues. These strict regulations demotivated many companies from going public for almost four and a half decades.

The government's liberalization process initiated during the mid-1980s, spurred the growth of capital market. Participation by small investors, speculation, defaults, ban on badla, and resumption of badla continued. Convertible debentures emerged as a popular instrument of resource mobilization in the primary market. The decade of the 1980s was characterized by an increase in

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the number of stock exchanges, listed companies, paid up-capital, and market capitalization.\textsuperscript{50}

The 1990s was the most eventful decade as far as the life history of capital market was concerned. During this period, the Capital Issues (Control) Act, 1947 was repealed in 1992. The decade was characterized by a new industrial policy, emergence of SEBI as a regulator of capital market, advent of foreign institutional investors, euro-issues, free pricing, new trading practices, new stock exchanges, entry of new players such as private sector mutual funds and private sector banks, and primary market boom and bust.

Major capital market scams took place in the 1990s. These shook the capital market and drove away small investors from the market. The securities scam of March 1992 involving brokers as well as bankers was one of the biggest scams in the history of the capital market. In the subsequent years owing to free pricing, many unscrupulous promoters, who raised money from the capital market, proved to be fly-by-night operators. This led to an erosion in the investors’ confidence. The M S Shoes case, one such scam which took place in March 1995, put a break on new issue activity.\textsuperscript{51}

The 1991-92 securities scam revealed the inadequacies of and inefficiencies in the financial system. It was the scam, which prompted a major reform for the equity market. The Indian stock market witnessed a sea change in terms of technology and market prices. Technology brought radical changes in the trading mechanism. The Bombay Stock Exchange was subject to nationwide competition by two new stock exchanges-the National Stock Exchange, set up in 1994, and Over the Counter Exchange of India, set up in 1992. The National Securities Clearing Corporation (NSCC) and National Securities Depository

\textsuperscript{50}Id at 529.
Limited (NSDL) were set up in April 1995 and November 1996 respectively for improved clearing and settlement and dematerialized trading. The Securities Contracts (Regulation) Act, 1956 was amended in 1995-96 for introduction of options trading. Moreover, rolling settlement was introduced in January 1998 for the dematerialized segment of all companies. With automation and geographical spread, stock market participation increased.\textsuperscript{52}

Initially, the capital market activities taking place through Stock Exchanges were all regulated through conventional contracts viz. Bye-laws and Rules of the Stock Exchanges. The passing of the Securities (Contracts) Regulation Act, 1956 and Securities (Contracts) Regulation Rules, 1957 gave a formal shape to the regulatory structure over the capital market activities. In the initial stages, the Central Government through the administrative wing of Stock Exchange Division, in Finance Ministry had oversight authority over capital market activities under this Act. However, with the creation of Securities and Exchange Board of India (SEBI) in 1992 through the SEBI Act 1992, a metamorphic change has taken place in the history of capital market in the country. Now a wide range of the capital market activities such as equity, debt, derivatives and other marketable securities are regulated by the Securities and Exchange Board of India, created by SEBI Act, 1992. The mutual fund activities are also under the jurisdiction of SEBI. The functioning of Depositories is also regulated by SEBI under the Depositories Act, 1996. In addition, SEBI also regulates various entities such as Custodians, Credit Rating Agencies, Venture Capital Funds, FIIs, Stock brokers under the SEBI Act, 1992 and various regulations issued for the respective intermediaries. The dealings in securities market are regulated under the Securities Contracts Regulations Act, 1956 (SCRA) and Securities Contracts Regulations, 1957 and the Stock Exchanges and their clearing houses are regulated under the SCRA. Of course, the Central Government has clearly demarcated the lines of regulatory jurisdictions under this Act between SEBI and Reserve Bank of India (RBI). While SEBI has been invested with the

\textsuperscript{52}Id
responsibility of overseeing all the above activities, RBI has been entrusted with the role of regulating the Government Securities, money market under the Act. RBI, as the Central Bank of the country and monetary authority has supervisory jurisdiction over the banking industry, the fulcrum of the Indian economy, under the Banking Regulation Act, 1949 read with Reserve Bank of India Act. Further under the Reserve Bank of India Act, 1934 it also regulates the Non-Banking Financial Companies, Chit Funds etc., as defined under the RBI Act. RBI also regulates Local Area Banks which are treated as commercial banks, with supervisory responsibility over such entities. It also plays supervisory and regulatory role under the Foreign Exchange Management Act, 1999 in respect of Forex transactions. The Reserve Bank of India Act was amended in 2006 to give it regulatory oversight over the OTC derivatives transactions and the agencies operating in OTC derivatives, Government Securities, money market transactions etc. It merits mention here that India appears to be one of the few countries in the world which has regulatory oversight with an extensive regulatory structure over the OTC derivative transactions. Further, recognizing the significance of the Systemically Important Systems in the country, a special legislation viz. Payments and Settlement Systems Act, 2007 has been put in place to regulate the agencies that operate the Payment systems in the country, entrusting the oversight power over them with RBI. The Registrars of Cooperatives of various states jointly regulate the banks in the cooperative sector in urban and rural areas. Whereas the banking functions of these banks are under the purview of NABARD and RBI, the administrative supervision is with the respective State Government. The statutory responsibilities of Housing Finance companies are with NHB and SFCs. The Ministry of Corporate Affairs regulates the Companies that are incorporated under the Companies Act, 1956 and their activities. Though the Companies Act can be traced back to the year 1913, the same has been thoroughly revisited in 1956 and quite a few times since then. The Companies Act, 2013 is total overhaul of the law to reflect the
latest trends in the international markets and reviewed with the objective of ushering in better and higher standards of corporate Governance.\textsuperscript{53}

5.3 EVOLUTION OF INSURANCE SECTOR:

The establishment of the Oriental Life Insurance Company in Kolkata in the year 1818 started the era of the business of Indian life insurance.

In the year 1912, the Indian Life Assurance Companies Act came into force for regulating the life insurance business. In 1928, The Indian Insurance Companies Act was enacted for enabling the government to collect statistical information on both life and non-life insurance businesses. In 1938, the earlier legislations were consolidated as the Insurance Act with the aim of safeguarding the interests of the insuring public. In 1956, 245 Indian and foreign insurers and Provident Societies were taken over by the Central Government and nationalized. LIC was formed by an Act of Parliament, viz. LIC Act, 1956. The history of general insurance business in India can be traced back to Triton Insurance Company Ltd. (the first general insurance company) which was formed in the year 1850 in Kolkata.\textsuperscript{54}

In 1907, The Indian Mercantile Insurance Ltd. was set up, as the first company to transact all general insurance business. In 1957, General Insurance Council, an arm of the Insurance Association of India, framed a code of conduct for guaranteeing fair conduct and sound business patterns. In 1968, The Insurance Act was amended in order to regulate investments and set minimal solvency levels and a Tariff Advisory Committee was set up. In 1972, The General


Then the four insurance companies were incorporated namely, the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC was incorporated as a company. A comprehensive regulation of insurance business in India was brought into effect with the enactment of the Insurance Act, 1983. It tried to create a strong and powerful supervision and regulatory authority in the Controller of Insurance with powers to direct, advise, investigate, register and liquidate insurance companies etc. However, consequent upon the nationalization of insurance business, most of the regulatory functions were taken away from the Controller of Insurance and vested in the insurers themselves. The Government of India in 1993 had set up a high powered committee by R. N. Malhotra, former Governor, Reserve Bank of India, to examine the structure of the insurance industry and recommend changes to make it more efficient and competitive keeping in view the structural changes in other parts of the financial system on the country.  

The committee submitted its report in January 1994 recommending that private insurers be allowed to co-exist along with government companies like LIC and GIC companies. This recommendation had been prompted by several factors such as need for greater deeper insurance coverage in the economy, and a much a greater scale of mobilization of funds from the economy for infrastructural development. Liberalization of the insurance sector is at least partly driven by fiscal necessity of tapping the big reserve of savings in the economy.

55 Id
56 Kaliyamoorthy and Suresh, Emerging Paradigms in the Insurance Sector, JIMS 8 M, July-Sept 2003, P. 29-34.
57 Id
Now, the Insurance activities are regulated by the Insurance Regulatory Development Authority under the Insurance Regulatory and Development Authority Act, 1999.

5.4 EVOLUTION OF THE COMMODITIES MARKET:

Bombay Cotton Trade Association Ltd., set up in 1875, was the first organized futures market. Bombay Cotton Exchange Ltd. was established in 1893 following a widespread discontent amongst leading cotton mill owners and merchants over functioning of Bombay Cotton Trade Association. The Futures trading in oilseeds started in 1900. But the most notable futures exchange for wheat was chamber of commerce at Hapur set up in 1913. Futures trading in bullion began in Mumbai in 1920. Calcutta Hessian Exchange Ltd. was established in 1919 for futures trading in raw jute and jute goods. But organized futures trading in raw jute began only in 1927 with the establishment of East Indian Jute Association Ltd. These two associations amalgamated in 1945 to form the East India Jute & Hessian Ltd. to conduct organized trading in both Raw Jute and Jute goods. Forward Contracts (Regulation) Act was enacted in 1952 and the Forwards Markets Commission (FMC) was established in 1953 under the Ministry of Consumer Affairs and Public Distribution. In due course, several other exchanges were created in the country to trade in diverse commodities.58

The government has now allowed national commodity exchanges, to deal in commodity derivatives in an electronic trading environment. These exchanges are expected to offer a nation-wide anonymous, order driven; screen based

trading system for trading. The Forward Markets Commission (FMC) will regulate these exchanges.\(^{59}\)

Consequently four commodity exchanges have been approved to commence business in this regard. They are:

- Multi Commodity Exchange (MCX) located at Mumbai.
- National Commodity and Derivatives Exchange Ltd (NCDEX) located at Mumbai.
- National Board of Trade (NBOT) located at Indore.
- National Multi Commodity Exchange (NMCE) located at Ahmedabad.

As far as the Commodities market are concerned, the commodities exchanges and the transactions, derivatives in commodities etc are regulated by Forward Market Commission. The Pension Funds are being regulated by a separate Regulatory authority. In addition to this, there is a proposal to create a separate Debt Management office as set out in the Union budget 2006-07 and as set out in FSLRC since the intention is to delink the function of debt management from the monetary function of Reserve Bank of India in line with the international best practices. Since it is felt, that Reserve Bank of India, as monetary authority and Central Bank of the country should not have Debt Management Functions which at present is under its fold, should be hived off to an independent authority. Thus historically, India has always been following an institutional model or what is called “silos” model of regulatory structure. That means to say that there are specialized or separate regulatory structures for different financial services.

### 5.5 EVOLUTION OF DERIVATIVES MARKET:

A derivative is a financial product which has been derived from another financial product or commodity. The underlying asset can be securities, commodities,
Derivative transactions are done basically for hedging purposes to reduce the risk that the parties face from potential movements in market variable and to avoid exposure to adverse movements in the price of an asset. Speculators bet on the future direction of the price of an asset and take a position in order to make a quick profit. Financial entities undertake riskless trading by simultaneously doing transactions in two or more markets. They endeavor to earn profit arising out of difference between futures and spot prices and among different futures prices.

Generally, the derivatives are classified into OTC traded derivatives and exchange-traded derivatives. OTC Derivative contracts are bilaterally negotiated between two parties. The OTC derivative market is huge in size world over and remain largely unregulated with respect to disclosure of information between parties. They are following: (i) Swaps such as Interest Rate Swaps (ii) Forward rate agreements (iii) Exotic options (iv) Other exotic derivative (b) Exchange traded derivative: The other category are exchange traded derivatives which are standard contracts.

The following are dealt on the exchanges

(i) Futures (ii) Options (iii) Interest rate (iv) Index product (v) Convertible (vi) Warrants (vii) Others

Derivative market in India was in existence from 1875 in commodities through the Bombay Cotton Trade Association started future trading way back in 1875. However, after independence the same was prohibited. In 1952, the government of India banned cash settlement and options trading, derivatives trading shifted to informal forwards markets. The derivatives trading was recognized for first time by promulgation at the securities laws (Amendment) ordinance 1995. The beginning of the year 2000, saw lifting of ban of futures trading in many commodities. Around the same period, national electronic commodity exchanges were also set up.
Changing Dynamics of the Regulatory Architecture for Financial Markets

As there was fear of these transactions being termed as “Wager” under the Indian Contract Act an amendment by the Securities Laws (Amendment) Act, 1999, section 18A was inserted in Securities Contracts (Regulation) Act, 1956 (SCRA) which gave legal backing to derivative trade on exchange. However, in view of the said section 18A of SCRA, a doubt was raised about the legality of OTC derivatives such as forward rate agreements and interest rate swaps permitted under RBI guidelines issued in July 1999 and whether they would be termed as “wager” and as such suitable amendments, effective January 9, 2007, were carried out to the Reserve Bank of India Act, 1934 (RBI Act) by introducing Chapter III D, under section 45 V thereby giving validity to transactions in such derivatives, as may be specified by RBI from time to time, if at least one of the parties to the transaction is RBI, a scheduled bank, or such other agency falling under the regulatory purview of RBI. Presently, the OTC derivatives are governed under Chapter III D of RBI Act, 1934. The following table gives statistical data on turnover in Indian Derivatives Market from 2008-09 till 2012-13\(^60\).

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity Derivatives</th>
<th>Currency Derivatives</th>
<th>Interest Rate Derivatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Index Futures</td>
<td>Index Options</td>
<td>Stock Futures</td>
</tr>
<tr>
<td>2008-09</td>
<td>35,819</td>
<td>37,315</td>
<td>34,797</td>
</tr>
<tr>
<td>2009-10</td>
<td>39,345</td>
<td>80,281</td>
<td>51,952</td>
</tr>
<tr>
<td>2010-11</td>
<td>43,569</td>
<td>172,694</td>
<td>54,958</td>
</tr>
<tr>
<td>2011-12</td>
<td>37,564</td>
<td>233,384</td>
<td>40,848</td>
</tr>
<tr>
<td>2012-13</td>
<td>26,496</td>
<td>298,092</td>
<td>42,272</td>
</tr>
</tbody>
</table>

5.6 EVOLUTION OF THE FINANCIAL MARKET:

It is evident from the above that India has a long and chequered history of financial intermediation. By the turn of the twentieth century, India had insurance companies and a functional stock exchange. Even before the setting up of the Reserve Bank of India in 1935, the country had money, Government Securities and foreign exchange markets.

The financial sector currently consists of financial institutions, financial markets and financial instruments. The various segments of the financial market in India are the credit market, the money market, the Government securities market, the foreign exchange market, the capital market and the insurance market. While the money, Government Securities and foreign exchange markets are regulated by the Reserve Bank, the capital market falls within the purview of Securities and Exchange Board of India (SEBI) and insurance market is regulated by the Insurance Regulatory and Development Authority (IRDA). Each of these markets developed on its own as is evident from the long history and accordingly has come to be regulated by a sectoral regulator61.

Financial market reform in India is a more a recent phenomenon and formed an important component of the overall financial sector and structural reform process initiated in the early 1990s. The actual financial reform process started in 1980s with the initiation of several measures following the recommendations of the Committee to Review the Working of the Monetary System in India, 1985 under the Chairmanship of Sukhamoy Chakravarty) and the Working Group on the Money Market, 1987 under Chairmanship of N. Vaghul. The process gathered momentum in the early 1990s with wide ranging reforms in all segments (money, forex and Government Securities) of the financial market. The

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evolution of the financial markets in India has been a gradual process and is broadly categorized into pre-reform period (before 1990s when markets were in a state of transition) and post reform period (since early 1990s when markets were characterized by large scale and rapid reform).  

The Legal basis for operations of the stock market operations and debt and money market operations which formed the major part of the financial operations were set out in the Securities (Contracts) Regulations Act, 1956 (SCRA). This Act provided basic legal and regulatory framework for Reserve Bank of India to regulate money market and Government securities read with provisions of the Reserve Bank of India Act read with Public Debt Act 1944 whereas the operations in stock market were vested with Finance Ministry, the Controller of Capital Issues before formation of Securities Exchange Board of India, 1992. After creation of SEBI, the SEBI Act, SCRA and later Depositories Act, 1996 provided it with framework to regulate securities in capital market. Similarly, the legal framework for insurance sector is set out in Insurance Regulatory and Development Authority Act, 1999.

5.7 EVOLUTION OF THE FOREIGN EXCHANGE MARKET:

Past seven decades have witnessed a significant growth of foreign exchange market in India from a highly controlled to a liberal regime. This market comprises Authorised Dealers (ADs) which are mostly banks, exporters and importers and individuals and RBI itself. Prior to 1990, this market was highly regulated. From 1930s to 1980, which may be called pre-reform period, Foreign Exchange market lacked depth and liquidity. Exchange control and the fixed exchange rate regime came in the way of forex market development. From 1930s to early 1990s, the policy relating to exchange rate varied significantly. In 1930, the

62 Id
concept of “sterling area” arrangement was introduced. The ‘sterling area’ comprised the British empire countries which had close historical, economic and political ties with United Kingdom (UK) and the value of whose currencies was based on Pound Sterling with an objective of creation of pool of non-sterling area currencies to be owned and operated by UK for the use of the members of the Sterling area. Thus the external value of currency was determined in terms of a basket of currencies till two-stage liberalization of exchange rate in the early 1990s. In order to make the most prudent use of the foreign exchange, it was decided to continue the control on the foreign exchange that was introduced during world war period. Accordingly Foreign Exchange Regulation Act (FERA), 1947 was enacted and later replaced by FERA, 1973. In 1978, due to increased demand, banks were permitted by RBI to undertake intra-day trades in forex. The de-linking Rupee from Pound Sterling spurred the foreign exchange market transactions. The persistent external imbalances and weak macroeconomic scenario in 1980s resulted in structural changes in exchange rate affecting the forex market. The Gulf war of 1990 led to an unprecedented liquidity crisis calling for adoption of corrective steps.

Reform period of the Forex market started from 1990. This period marked initiation of wide ranging measured to widen and deepen the forex market with liberalization of exchange rate. The recommendations made by Rangarajan Committee in 1992, Sodhani Committee in 1995 and Tarapore Committee in 1997 gave the much needed impetus to the growth of Forex market. Though in early 1990s, there was not much of liquidity and depth in the forex market due to various shortcomings in spite of partial convertibility of rupee in 1992. The passing of Foreign Exchange Management Act, 1999 for orderly development of forex exchange market in India and introduction of market based system under which exchange rate is to be determined by demand and supply forces, from a managed floating rate system, brought changes to this market. Current account transactions were freed of exchange control regulations and controls over several transactions on capital account were also eased. Subsequent
liberalization of extant regulations on foreign exchange in 2005 such as freedom to cancel and rebook forward contracts of any tenor, delegation of powers to Authorised Dealers for grant of permission to corporates to hedge their exposure in commodity price risk in international commodity markets, extension of trading hours and introduction of guaranteed settlement system for foreign exchange transactions have helped to expand this market.

5.8 FINANCIAL MARKET INTEGRATION:

One of the primary goals of financial market development in India has been to foster integration of financial markets which, besides creating competitive markets, assist in using market based instruments of monetary policy. The major thrust of Reserve Bank, as monetary authority, has been to develop a deep, liquid and integrated financial market. Accordingly, various reform process initiated has helped in integration of segments of the financial markets. For instance, the integration between call money and forex market operates essentially through banks’ permissible limits on investments in overseas markets, and options to hedge, prepay, etc., in foreign currency under FCNR(B), on banks’ own account or that of corporates. These linkages are expected to widen and deepen. Another case in point relates to the linkages between call money market and Government Securities market where large positions in Government securities are funded through short-term borrowings, especially from the call money market. It has been noticed that since mid-1990 various segments of the financial markets have become highly integrated. This integration amongst different segments of markets would in turn promote linkage between domestic and international markets. These emerging linkages amongst money, Government securities and foreign exchange markets have necessitated the use of short-term monetary measures by the Reserve Bank along with meeting demand-supply mismatches to arrest excessive volatility in the foreign exchange market. The Indian markets are in tandem with the global markets.

63Id.
reflecting growing integration between domestic and international markets. The opening up of the economy has brought about gains in terms of inflows of foreign investments which have contributed to growth and employment.\textsuperscript{64}

The following graph on the growth of money market, equity and Government securities market for the period 2001 to 2005, is indicator of the fact that each market is headed on further upward growth. The Sectoral regulators namely SEBI for equity and RBI for Government Securities and money market have in place different checks and balances to regulate the growth.

<table>
<thead>
<tr>
<th></th>
<th>Money market - Avg Daily turnover (Rs. crore)</th>
<th>G-Sec Market - Daily turnover (Rs. crore)</th>
<th>Equity Market - Avg Daily turnover</th>
<th>Percentage share in total</th>
<th>Money Market Turnover (Rs. crore)</th>
<th>G-Sec Market Turnover (Rs. crore)</th>
<th>Grand total (2 + 3+ 4+ 5)</th>
<th>Money Market</th>
<th>G-Sec Market</th>
<th>Equity (NSE +BSE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>INR 40,923</td>
<td>INR 2,802</td>
<td>INR 3,981</td>
<td>INR 5,327</td>
<td>INR 53,033</td>
<td>77.2%</td>
<td>5.3%</td>
<td>17.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td>INR 65,500</td>
<td>INR 6,252</td>
<td>INR 1,229</td>
<td>INR 2,081</td>
<td>INR 75,062</td>
<td>87.3%</td>
<td>8.3%</td>
<td>4.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>INR 76,722</td>
<td>INR 7,067</td>
<td>INR 1,250</td>
<td>INR 2,461</td>
<td>INR 87,500</td>
<td>87.7%</td>
<td>8.1%</td>
<td>4.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>INR 28,146</td>
<td>INR 8,445</td>
<td>INR 1,980</td>
<td>INR 4,329</td>
<td>INR 42,900</td>
<td>65.6%</td>
<td>19.7%</td>
<td>14.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>INR 31,830</td>
<td>INR 4,826</td>
<td>INR 2,053</td>
<td>INR 4,513</td>
<td>INR 43,222</td>
<td>73.6%</td>
<td>11.2%</td>
<td>15.2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                   | Covers Call Money, Term Money and Repo Markets |

\textsuperscript{64}Id.

It is amply clear from the above delineation of the financial markets in India, that they have a long history of evolution. Each market such as banking, securities, insurance, commodity etc., evolved over a period of time in response to the needs of the market conditions prevailing at that point of time. Accordingly, the regulatory structures for the same have also simultaneously emerged to address concerns arising out of development of those markets. The regulatory silos which are present today in our financial system have arisen out of what has been inherited over a long period of time. Furthermore on account of phenomenal growth of each segment of the financial market, it appears that Sectoral Regulation is playing an effective role. An efficient and healthy market integration amongst similar structures controlled by a regulator promotes better growth. Hence, there is a need to allow the development of Sectoral regulation and hence any major change or review in those structures requires a careful study or else it could destabilize the financial markets.