Chapter 1: An Overview Of Indian Capital Market

1.1 Introduction

The capital market is a vital of the financial system. Capital market provides the support of capitalism to the country. The wave of economic reforms initiated by the government has influenced the functioning and governance of the capital market. The Indian capital market is also undergoing structural transformation since liberalisation. The chief aim of the reforms exercise is to improve market efficiency, make stock market transactions more transparent, curb unfair trade practices and to bring our financial markets up to international standards. Further, the consistent reforms in Indian capital market, especially in the secondary market resulting in modern technology and online trading have revolutionized the stock exchange.

Capital market concerned with the industrial security market, government securities markets, and long term loan market. Capital market deals with long term loan market. It supplies long-term and medium term funds. It deals wit shares, stocks debentures and bonds. Security dealt in capital markets are long-term securities. It provides a market mechanism for those who have saving and to those who have saving and to those who need funds for productive investments. The capital market aids economic growth by mobilizing the savings of the economic sector and directing the same towards channels of productive uses. Companies turn to them to raise funds needed to finance for the infrastructure facilities and corporate activities.

The capital market is source of income for investors. When stock of other financial assets rise in value, investors become wealthier, often they spend some of this additional wealth boost sales and promoting economic growth. Stock value reflects investor reactions to government policy as well, if the government adopts policies that investors believe will hurt the economy and company profits, vice-versa.

In the post-reform period, India stands as an economy that is rapidly – modernising, globalising and growing. India is poised as a fast growing emerging market economy in the face of the current turmoil and pessimism. The resilience shown by India comes from the strong macroeconomic fundamentals. India has weathered the storms of the recent
financial market crisis with great strength and stability. The household sector is coming to prominence with impressive contribution in the national pool of savings. Rising investment levels and improved productivity are the engines driving growth. Indians have witnessed a doubling of average real per capital income growth during the tenth plan period. The government has progressed towards a fiscal correction. There has also been a sharp rise in net capital inflows. The strong institutional and macroeconomic policy framework in India is further complemented by the gains from trade and global financial integration.

Over the years, the Indian capital market as experienced a significant structural transformation in that it now compares well with those in developed markets. This was deemed necessary because of the gradual opening of the economy and the need to promote transparency in alternative sources of financing. The regulatory and supervisory structure has been overhauled with most of the power for regulating the capital market having been vested with the securities exchange board of India (SEBI).

Globalization and financial sector reforms in India have ushered in a sea change in the financial architecture of the economy. In the contemporary scenario, the activities in the financial markets and their relationships with the real sector have assumed significant importance. Since the inception of the financial sector reforms in the early 1990’s, the implementation of various reform measures including a number of structural and institutional changes in the different segments of the financial markets has brought a dramatic change in the functioning of the financial sector of the economy. Altogether, the whole gamut of Institutional reforms connected to globalization program, introduction of new instruments, change in procedures, widening of network of participants call for a re-examination of the relationship between the stock market and the foreign sector of India.

Correspondingly, researches are also being conducted to understand the current working of the economic and the financial system in the new scenario. Interesting results are emerging particularly for the developing countries where the markets are experiencing new relationships which were not perceived earlier. The analysis on stock markets has come to the fore since this is the most sensitive segment of the
economy and it is through this segment that the country’s exposure to the outer world is most readily felt.

It analyses the relationship between stock prices and foreign sector macroeconomic variables in India with implications on efficiency of Indian stock market. With positive indicators such as a stable 8-9 per cent annual growth, GDP of $4.156 trillion, a labor force of 509.3 million, rising foreign exchange reserves of over US$222 billion, a booming capital market with the popular ‘Sensex’ index topping the majestic 15,000 mark, the Indian economy is fast emerging as a lucrative place for foreign investors.

The Bombay Stock Exchange was setup in 1875 and is one of the oldest stock exchanges in India. The BSE Sensex is the benchmark index of the country and acts as a barometer of the economy. It is also called the BSE (30) Sensitive Index (Web 2), The Sensex is a 30 stock index, composed of the largest and most traded stocks representing various sectors in the economy.

The Sensex has come a long way from around 2000 in January 1992 to 15000+ in June 2007. Over the last one decade there has been an increase in the mobility of international capital flows globally. This is more evident in the increase in the foreign capital flowing into the emerging market economies (EME’s). Among the emerging markets, India given its strong performance, economic growth and well regulated stock market has been the most preferred destination after China in the recent years.

This chapter deal with the an overview of capital market, definitions, history, nature, functions, types of markets, SEBI guidelines, different stock exchanges global and domestic, reforms, and impact of global crisis.

1.2 Definitions and Meaning of Capital Market  (1 to 3)
The capital market is a place where people buy and sell securities. Securities in this sense is simply a bundle of rights sold to the public by companies, authorities or institutions on which people then trade in the capital market.
There are different types of securities or bundles of rights. These include shares, debentures, bonds, etc. There are two levels of the market. The primary market is the market where those wishing to raise funds from the stock market sell their securities to the public. The secondary market is where those who bought the securities in the Initial Public Offer (IPO) can sell them any time they wish.

The reason why people buy securities from the primary market is because they have the assurance that there is a secondary market where they can sell those shares possibly at a profit.

**The Capital Market Solicitors Association (CMSA)** is a voluntary professional organisation consisting of Law firms duly registered by the Securities and Exchange Commission (SEC) to act as Capital Market Operators in the capacity of solicitors. Some of the aims and objectives of the Association ranges from protection of the interest of its members, contributing to the policy and regulation process within the capital market.

**According to Arun K. Datta,** The capital market may be define as “The capital market is a complex of institutions investment and practices wit established links between the demand for and supply of different types of capital gains”.

**According to F. Livingston** defined the capital market as “In a developing economy, it is the business of the capital market to facilitate the main stream of command over capital to the point of the highest yield. By doing so it enables control over resources to pass into hands of those who can employ them most effectively thereby increasing productive capacity and spelling the national dividend”.

**Capital market defined as** “The market for relatively long-term financial instruments. It consists of gilt edged market and the industrial securities market. The gilt edged market refers to the market for government and semi-government securities backed by the RBI. The securities traded in this market are stable in value and are much sought after by banks and other institutions”.

As per above definitions, meaning of capital market as follow:

1. The capital market is the market for securities, where companies and governments can raise long-terms funds.
2. The market in which corporate equity and long-term debt securities those maturing in more than one year are issued and traded.
3. The capital market is market for long-term debt equity shares. In this market, the capital funds comprising of both equity and debt are issued and traded.
4. The market in which long-term securities such as stocks and bonds are bought and sold.
5. The capital market comprises financial securities, government securities, semi-government securities.
6. The capital market concerns two broad types of securities traded, debts and equity. Buying stock allows investors to gain an equity interest in the company and become owner.

1.3 Nature and Participants (3)

The nature of the capital market is wider. The capital market consists of a number of individuals and institution. The government is also an important player in the capital market. The players in the capital market canalize the supply and demand for long-term capital. The constituents of exchange, commercial banks, co-operative banks, savings banks, development banks, insurance companies, investment trust and companies etc.

Capital market participants

The supply in this market comes from savings from different sectors of the economy. These savings accrue from the following sources:

1. Individuals.
2. Corporate.
3. Governments.
4. Foreign countries.
5. Banks.
6. Provident Funds.
All these entities contribute to savings in the economy part of these savings naturally flow in the capital markets. Individuals invest in these markets directly by investing in shares or debentures of companies through bond issues of public sector units or through mutual funds. Corporate who have more savings than their requirement for funds also are participants in this market.

**Chart 1.1**

**Indian Capital Market Systems**

Source: *The Indian Financial Systems*, Bharti Pathak
1.4 Capital Market Instruments (4):

Financial instruments that are used for raising capital resources in the capital market are known as Capital Market Instruments”. The changes that are sweeping across the Indian capital market especially in the recent past are something phenomenal. It has been experiencing metamorphic in the last decade, thanks to a host of measures of liberalization, globalization, and privatization that have been initiated by the Government. Pronounced changes have occurred in the realm of industrial policy, Licensing policy, financial services industry, interest rates, etc. The competition has become very intense and real in both industrial sector and financial services industry. As a result of these changes, the financial services industry has come to introduce a number of instruments with a view to facilitate borrowing and lending of money in the capital market by the participants.

The various capital market instruments used by corporate entities for raising resources are as follows:
1. Preference shares
2. Equity shares
3. Non-voting equity shares
4. Cumulative convertible preference shares
5. Company fixed deposits
6. Warrants
7. Debentures
8. Bonds
9. Mutual fund
10. Derivatives
11. Commodities
12. Currency exchange

1.5 History of Indian Capital Market (5 to 10)

Indian Stock Markets are one of the oldest in Asia. Its history dates back to nearly 200 years ago. The earliest records of security dealings in India are meager and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century. The history of
the Indian capital markets and the stock market, in particular can be traced back to 1861 when the American Civil War began. The opening of the Suez Canal during the 1860s led to a tremendous increase in Exports to the United Kingdom and United States. Several companies were formed during this period and many banks came to the fore to handle the finances relating to these trades. With many of these registered under the British Companies Act, the Stock Exchange, Mumbai, came into existence in 1875.

It was an unincorporated body of stockbrokers, which started doing business in the city under a banyan tree. Business was essentially confined to company owners and brokers, with very little interest evinced by the general public. There had been much fluctuation in the stock market on account of the American war and the battles in Europe. Sir Premchand Roychand remained a kingpin for many years.

Indian Capital Market before Independence

The Indian capital market was not properly developed before Independence. The growth of the industrial securities market was very much hampered since there were very few companies and the number of securities traded in the stock exchanges was still smaller. Most of the British enterprises in India looked to the London capital market for funds than to the Indian capital market. A large part of the capital market consisted of the gilt-edged marker for government and semi-government securities.

Indian Capital Market after Independence

Since Independence and particularly after 1951, the Indian capital market has been broadening significantly and the volume of saving and investment has shown steady improvement. All types of encouragement and tax relief exist in the country to promote savings. Besides, many steps have been taken to protect the interests of investors. A very important indicator of the growth of the capital market is the growth of joint stock companies or corporate enterprises. In 1951 there were about 28,500 companies both public limited and private limited companies with a paid-up capital of Rs. 775 crores.

In the 1950s, Century Textiles, Tata Steel, Bombay Dyeing, National Rayon, and Kohinoor Mills were the favorite scrips of speculators. As speculation became rampant, the stock market came to know as the satta bazaar. The planning process started in India in 1951, with importance being given to the formation of institutions and markets. The
Securities Contract Regulation Act 1956 became the parent regulation after the Indian Contract Act 1872, a basic law to be followed by security markets in India. To regulate the issue of share prices, Controller of Capital Issues Act (CCI) was passed in 1947.

In the 1960-70s was characterized by was and droughts in the country with led to bearish trends. These trends were aggravated on forward trading its call badla, technically called ‘contracts for clearing’. Financial institutions such as LIC and GIC helped revive the sentiment by emerging as the most important group of investors. The markets have witnessed several golden times too. Retail investors began participating in the stock markets in a small way with the dilution of the FERA in 1978. Multinational companies, with operations in India, were forced to reduce foreign share holding to below a certain percentage, which led to a compulsory sale of shares or issuance of fresh stock. Indian investors, who applied for these shares, encountered a real lottery because those were the days when the CCI decided the price at which the shares could be issued. There was no free pricing and their formula was very conservative.

In the 1980s emerged an explosive growth of the securities market in India, with millions of investor suddenly discovering lucrative opportunities. Many investors come in to the stock market. The next big boom and mass participation by retail investors happened in 1980, with the entry of Mr. Dhirubhai Ambani. Dhirubhai can be said to be the father of modern capital markets. The Reliance public issue and subsequent issues on various Reliance companies generated huge interest. The general public was so unfamiliar with share certificates that Dhirubhai is rumoured to have distributed them to educate people.

Mr. V.P. Singh’s fiscal budget in 1984 was path breaking for it started the era of liberalization. The removal of estate duty and reduction of taxes led to a swell in the new issue market and there was a deluge of companies in 1985. Mr. Manmohan Singh as Finance Minister came with a reform agenda in 1991. Liberalisation and globalisation were the new terms coined and marketed during this decade. The mid-1990s saw a rise in leasing company shares, and hundreds of companies, mainly listed in Gujarat, and got listed in the BSE. The 1991-92 securities scam revealed the inadequacies of and inefficiencies in the financial system. It was the scam which prompted a reform of the equity market. The Indian stock market has change in terms of technology and market price.
In the 2000s saw the emergence of Ketan Parekh and the information; communication and entertainment companies came into the limelight. This period also coincided with the dotcom bubble in the US, with software companies being the most favored stocks. There was a melt down in software stock in early 2000. Mr. P Chidambaram continued the liberalization and reform process, opening up of the companies, lifting taxes on long-term gains and introducing short-term turnover tax. The markets have recovered since then and we have witnessed a sustained rally that has taken the index over 21000 during the year 2008.

This history shows us that retail investors are yet to play a substantial role in the market as long-term investors. Retail participation in India is very limited considering the overall savings of households. Investors who hold shares in limited companies and mutual fund units are about 20-30 million. Those who participated in secondary markets are 2-3 million. Capital markets will change completely if they grow beyond the cities and stock exchange centers reach the Indian villages. Both SEBI and retail participants should be active in spreading market wisdom and empowering investors in planning their finances and understanding the markets.

It has been a drastic long journey for the Indian capital market. Recent time’s capital market is performed very well, fairly integrated, mature, more globally. The Indian capital market is one of the best in the world in terms of technology. There are many business news channels, news paper, magazines, are issued in India. Online trading is become a global phenomenon. Indian capital market would be an integrated with international market.

1.6 Role of Capital Market (11 & 13)
Capital market plays an extremely important role in promoting and sustaining the growth of an economy. It is an important and efficient conduit to channel and mobilize funds to enterprises, and provide an effective source of investment in the economy. It plays a critical role in mobilizing savings for investment in productive assets, with a view to enhancing a country’s long-term growth prospects. It thus acts as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace within the global arena.
Capital markets play a vital role in Indian economy, the growth of capital markets will be helpful in raising the per-capita income of the individuals, decrease the levels of unemployment, and thus reducing the number of people who lie below the poverty line. With the increasing awareness in the people they start investing in capital markets with long-term orientations, which would provide capital inflows to the sectors requiring financial assistance.

1. Capital arrangement
The capital market promotes capital formation in the country. Rate of capital formation depends upon savings in the country. Though the banks mobilize savings, they are not adequate to match the requirements of the industrial sector. The capital market mobilizes savings of households and of the industrial concern. Such savings are then invested for productive purposes. Thus savings and investment leads to capital arrangement in the country.

2. Economic growth
Capital market smooths the progress of the growth of the industrial sector as well as other sectors of the economy. The main purpose of the capital market is to transfer resources from masses to the industrial sector. The capital market makes it possible to lend funds to various projects, both in the private as well as public sector.

3. Development of backward areas
The capital markets provide funds for the projects in backward areas. This facilitates the economic development of backward areas.

4. Generates employment
   Capital market generates employment in the country:
   i) Direct employment in the capital markets such as stock markets, financial institutions etc.
   ii) Indirect employment in all sectors of the economy, because of the funds provided for developmental projects.
5. **Long term capital to industrial sector**
   The capital market provides a stable long-term capital for the companies. Once, the funds are collected through issues, the money remains with the company. The company is left free with the funds while investors exchange securities among themselves.

6. **Generation of foreign capital**
   The capital market makes possible to generate foreign capital. Indian firms are able to generate capital from overseas markets by way of bonds and other securities. Such foreign exchange funds are vital for the economic development of the nation.

7. **Developing role of financial institutions**
   The various agencies of capital market such as industrial financial corporation of India (IFCI), state finance corporations (SFC), industrial development bank of India (IDBI), industrial credit and investment corporation of India (ICICI), unit trust of India (UTI), life insurance corporation of India (LIC), etc. there have been rendering useful services to the growth of industries. They have been financing, promoting and underwriting the functions of the capital market.

8. **Investment opportunities**
   Capital markets provide excellent investment opportunities to the members of the public. The public can have alternative source of investment i.e. In bonds, shares and debentures etc.

The capital market play very important role in Indian financial system as follow:

1. To mobilize long-term savings to finance long term investments.
2. To inspirations broader ownership of productive assets.
3. To improve the efficiency of capital allocation through a competitive pricing mechanism.
4. To provide liquidity with mechanism enabling the investor to see financial assets.
5. To make lower the costs of transactions and information.
6. To make bridge between investors and companies.
7. To make quick valuation of financial instruments both equity and debt.
8. To security against market risk or price risk through derivative trading and default risk through investment protection fund.
9. To provide operational efficiency.
10. To direct the flow of funds into efficient channels through investment, disinvestment, and reinvestment.
12. To give opportunities to risk taker in term of equity and return taker in term of debt.

Thus, a capital market serves as an important link between those who save and those who aspire to invest their savings.

1.7 Types of capital market (14, 15)
The Capital Market comprises the primary capital market and secondary capital market.

**Primary Capital Market:**
The primary capital market is a market for new or fresh issues. It deals to the long-term flow of fund from the surplus sector to the government and corporate sector through primary issues and to banks and non-bank financial intermediary secondary issues, primary issues of the corporate sector lead to capital formation. The Primary market for securities is the new issues market which brings together the “supply and demand” or “sources and uses” for new capital funds.

The company will usually issue only primary shares, but may also sell secondary shares. Typically, a company will hire an investment banker to underwrite the offering and a corporate lawyer to assist in the drafting of the prospectus.

The sale of stock is regulated by authorities of financial supervision and where relevant by a stock exchange. It is usually a requirement that disclosure of the financial situation and prospects of a company be made to prospective investors.

A follow on public offering /Further Issue is when an already listed company makes either a fresh issue of securities to the public or an offer for sale to the public, through an offer document.
Secondary Capital Market

The secondary market also called "aftermarket" is the financial market for trading of securities that have already been issued in its initial private or public offering. Stock exchanges are examples of secondary markets. Alternatively, secondary market can refer to the market for any kind of used goods.

Secondary market is also called share market. Share market includes exchange of those securities which are already sold and listed in the Primary market. Any transaction in the share market can be executed by the members of the exchange keeping in mind the rules and regulations of the SEBI.

If any normal investor wants to buy or sell any security then he or she will have to contact with any broker of the exchange. Then the broker shall buy or sell the contemplated security on behalf of the investor and thus will be entitled to a certain brokerage

The secondary capital market is market where outstanding or exciting securities are traded. An equity instrument being an external fund provides an all-time market while a debt instrument, with a defined maturity period, is traded at the secondary market till maturity. Unlike primary issues in the primary market which result in capital formulation the secondary market facilitates only liquidity and marketability of outstanding debt and equity instruments. The secondary market also provides instant valuation of securities made possible by changes in the internal environment that is, companywide and industry wide facilities the measurement of the cost of capital and rate of return of economic entities at the micro level. The Indian secondary capital market classify into two ways as follow:

1. Secondary capital market for corporate and financial intermediaries.
2. Secondary capital market for government securities and public sector bonds.
1.8 SEBI and Regulations of The Capital Market (16 to 21)

Before the establishment of the securities and exchange board of India, the principal legislations governing the securities market in India were the capital issues control act 1956 and the securities contract act 1956. The regulatory powers were vested with controller of capital issues for the primary market and the stock exchange division for the secondary market in the Ministry of finance, Government of India.

In the year 1989, SEBI was created by an administrative fiat of the ministry of finance. Since then, SEBI as gradually was granted more and more powers. With the repeal of the capital issues control act and the enactment of the SEBI act in 1992, the primary market has become the preserve of SEBI. Further, the ministry of finance, government of India, has transferred most of the powers under the securities contracts act 1956 to SEBI.

SEBI protects the interest of investors in securities and promote the development of securities market.

**Functions of the SEBI are as follow:**

1. Regulate the business in stock exchanges and any other securities markets.
2. Register and regulate the working of capital market intermediaries like as brokers, merchant bankers, portfolio managers and so on.
3. Register and regulate the working mutual funds.
5. Prohibit fraudulent and unfair trades’ practices in securities markets.
6. Promote investors’ education and training of intermediaries of securities markets.
7. Prohibit insider trading securities.
8. Regulate substantial acquisition of shares and takeover of companies.
9. Perform such other functions as may be prescribed by the government.
10. Review any intermediary or market participant information.
11. Review books of depository participants, issuers of beneficiary owners.
12. Investigate and inspect books of accounts and record of insiders.
13. Suspend the registration of banker if and quarry is there.
14. Suspend certificates and registration if and quarry is there.
Regulations of the Capital Market

Securities and Exchange Board of India (SEBI) was set up as an administrative arrangement in 1988. In 1992, the SEBI Act was enacted, which gave statutory status to SEBI. It mandates SEBI to perform a dual function: investor protection through regulation of the securities market and fostering the development of this market. SEBI has been vested most of the functions and powers under the Securities Contract Regulation (SCR) Act, which brought stock exchanges, their members, as well as contracts in securities which could be traded under the regulations of the Ministry of Finance. It has also been delegated certain powers under the Companies Act. In addition to registering and regulating intermediaries, service providers, mutual funds, collective investment schemes, venture capital funds and takeovers, SEBI is also vested with the power to issue directives to any person(s) related to the securities market or to companies in areas of issue of capital, transfer of securities and disclosures. It also has powers to inspect books and records, suspend registered entities and cancel registration.

The securities market is regulated by various agencies such as the Department of Economic Affairs (DEA), The Department of company affairs (DCA), the Reserve Bank of India and the SEBI. The activities of these agencies are coordinated by a high level committee on capital and financial markets.

The capital market for equity and debt securities is regulated by the Securities and Exchange Board of India. The SEBI has full autonomy and authority to regulate and develop the capital market. The government has framed rules under the Securities Contracts Act (SCRA), the SEBI Act and the Depositories Act. The power in respect of the contracts for sales and purchase of government securities, money market securities and ready forward contracts in debt securities are exercised concurrently by the RBI.

The four main legislations governing the capital market are as follows:

1. The SEBI Act, 1992 which establishes the SEBI with four fold objectives of protection of the interests of investors in securities, development of the securities market, regulation of the securities market and matter connected therewith and incidental thereto.
2. The Companies Act, 1956 which deals with issue, allotment and transfer of securities, disclosures to be made in public issues, underwriting, rights and bonus issues and payment of interest and dividends.

3. The Securities Contracts Regulation Act, 1956 which provides for regulations of securities trading and the management of stock exchanges.

4. The Depositories Act, 1996 which provides for establishment of depositories for electronic maintenance and transfer of ownership of demat securities.

1.9 Depository system of India (22 to 25)
A Depository Participant (DP) is described as an agent of the depository. They are the intermediaries between the depository and the investors. The relationship between the DPs and the depository is governed by an agreement made between the two under the Depositories Act, 1996. In a strictly legal sense, a DP is an entity who is registered as such with SEBI under the provisions of the SEBI Act. As per the provisions of this Act, a DP can offer depository related services only after obtaining a certificate of registration from SEBI.

A depository is an organization which assists in the allotment and transfer of securities and securities lending by using electronic form through a registered depository participant. The shares in a depository are held in the form and the depository system revolves around the concept of paper less or scrip less trading i.e. electronic. An effective and fully developed securities depository system is essential for maintaining and enhancing the market efficiency which is one of the core characteristics of a mature capital market. In march-1989, the group thirty had emphasised the importance of a central depository by highlighting the adverse effect on global investment brought about by the in efficiencies of international settlement and clearing facilities in their report on “clearance and settlement systems in the world’s securities markets”. The depository and custodial service is one of the developing countries. The depository system provides a wide range of service, as primary market services, secondary market services and ancillary services. A depository can be compared to a bank. A depository holds securities of investors in electronic form. Besides holding securities, a depository also provides services related to transactions in securities.
The new system thus eliminates paper work, facilitates automatic and transparent trading in scripts, shortens the settlement period and ultimately contributes to the liquidity of investment in securities. This system is also known as ‘Scriples trading system’.

There is a two Depository system in India as follow:

1. **National Securities Depository LTD. (NSDL):**
   
The NSDL, the first depository in India which has been promoted by three premier institutions in India, i.e. Industrial Development Bank of India, UTI and NSE. The NSDL started from November 8 1996. The NSDL is a public limited company framed under the companies Act 1956 wit a paid up capital of Rs. 105 crore. The NSDL carries out its operations through participants and the clearing corporation of the stock exchange, with participants acting as market intermediaries through whom NSDL interacts with the investors and clearing members.

   NSDL performs the following functions through depository participants :
   
   1. Enables the surrender and withdrawal of securities to and from the depository (dematerialisation and rematerialisation).
   2. Maintains investor holdings in the electronic form.
   3. Effects settlement of securities traded on the exchanges.
   4. Carries out settlement of trades not done on the stock exchange (off-market trades).
   5. Transfer of securities.
   6. Pledging/hypothecation of dematerialised securities.
   7. Electronic credit in public offerings of companies or corporate actions.
   8. Receipt of non-cash corporate benefits like bonus rights, etc. in electronic form.
   9. Stock Lending and Borrowing.

2. **Central Depository Services LTD (CDSL)**

   CDSL was promoted by Bombay Stock Exchange Limited (BSE) jointly with leading banks such as State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank, Union Bank of India and Centurion Bank. CDSL was set up with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. It commenced its operation n march 22 1999.

   BSE has 45% stake in CDSL while the bank have a 55% stake. CDSL has been preferred platform by the government of India for carrying out actual share transactions PSUs.
disinvestment have been done through CDSL system. Every transaction at CDSL is doing at one e-space. The centralized system of CDSL keeps a watch on every transaction. All leading stock exchanges have established connectivity with the CDSL.

CDSL’s demat services are extended through its agents called Depository Participants (DP). The DP is the link between the investor and CDSL. An investor who opens a demat account with a DP can utilise the services offered by CDSL. While the DP processes the instructions of the investor, the account and records thereof is maintained with CDSL. A DP is thus a "service centre" for the investor.

CDSL’s system is based on centralised database architecture with on-line connectivity with DPs. Because of this centralised architecture, the cost for setting up a DP outfit under CDSL system is significantly lower. Similarly, the recurring costs to be incurred by a CDSL-DP in terms of maintaining back-ups and the related data storage are minimal. This enables a CDSL-DP to offer depository services to investors at an attractive price and at the same time achieve break-even faster at much lower volumes. The centralised architecture also allows CDSL-DP to make available to the investors a to-the-minute status of their account and transactions. CDSL-DPs can also set up branches with direct electronic connectivity with CDSL.

CDSL perform a wide range of securities related functions through DPS. The services of Depository participants are as follow:

1. To record and maintenance of individual investors beneficial holding in an electronic form.
2. Dematerialisations of physical securities and Rematerialisations of securities.
3. To give facility for locking of investor accounts.
4. To give facility for pledge and hypothecation of securities.
5. To make settlement of trades in electronic shares.
6. To issue a form for public offerings.
1.10 Exchanges in India (26 to 31)

The stock exchanges are the important player of the capital market. They are the citadel of capital and fortress of finance. They are the platform of trading in securities and as such they assists and control the buying and selling of securities. Thus, stocks exchanges constitute of a market where securities issued by the central and state, governments, public bodies and joint stock companies are traded.

There are mainly four stock exchanges in India as follow:

1. Bombay Stock Exchange (BSE)
2. National Stock Exchange (NSE)
3. The Over The Counter Exchange of India (OTCEI)
4. Regional Stock Exchanges

1. Bombay Stock Exchange (BSE):

The BSE is a voluntary, non profit making association of broker members. It emerged as premier stock exchange after the 1960s. The increased pace of industrialization caused by the two world wars, protection to the domestic industry and the government’s fiscal policies aided the growth of new issues which, in turn, helped the BSE to prosper. The BSE dominated the Indian capital market by accounting for more than 60 per cent of the all India turnover. Until 1992, the BSE operated like a closed club of select members. The SEBI taking over the reins of the stock market, the BSE had brought about changes in its operational policies. On March 1995 the BSE had open outcry system of trading, the BSE turned to electronic trading whereby brokers trade using computers and technology. This system is known as the BSE on line trading system. This system helped in improving trading volumes, significantly reducing the spread between buy and sell orders, better trading in odd lot shares, fixed income instruments, and dealings in the renunciation of right shares.

The BSE is still in the process of reforming itself. The involvement of BSE brokers and its elected members in a series of scams has affected its image and small and institutional investors have more or less lost faith in it. It is in the process of organising and restructuring itself into a corporate entity.
2. National Stock Exchange (NSE):
The NSE was set up in 12th November 1992 to encourage stock exchange reform through
system modernization and competition. The reach of NSE has been extended to 21 cities
of which six cities don’t have stock exchanges of their own. It is an electronic screen
based system where members have equal access and equal opportunity of trade
irrespective of their location in different parts of the country as they are connected through
a satellite network. The system helps to integrate the national market and provides a
modern system with a complete audit trial of all transactions.

The NSE establishes a nationwide trading facility for equities, debt instruments and
hybrid. It insures all investors all over the country equally access through an appropriate
communication network. It provide a fair, efficient, and transparent securities market to
investors through an electronic trading system, and to provide the current international
standards of securities markets.

The NSE introduced for the first time in India, fully automated screen based trading
eliminating the need for physical trading floors. The NSE was the first exchange to grant
permission to brokers for internet trading. NSE incorporated a separate entity NSE IT
LTD in October 1999 to service the securities industry in additional to the management of
IT requirement of NSE. The NSE was the third largest exchange in the world in 2005 in
terms of the number of transactions.

3. The Over The Counter Exchange of India (OTCEI)
The OTCEI was promoted jointly by the ICICI, SBI, UTI, Capital markets Ltd., Can
ban Financial services Ltd., LIC, GIC. It was recognised as a stock exchange under the
securities contracts act 1956 with effect from August 23 1989. The OTCEI was
incorporated as a company under section-25 of the companies act 1956 on September 20
1990, with an authorized capital of Rs. 5 crore.

The OTCEI is based on the model of national association of securities dealers’ automated
quotation (NASDAQ) of USA, with modifications to suit the Indian conditions. It
commenced operations from October 6 1992. The OTCEI arose out of the need to have a
second tier market in the country. It was set up to provide small and medium companies
an access to capital market for raising finance in a cost effective manner and investors with a convenient, transparent and efficient avenue for capital market investment.

The OTCEI was the first ringless, electronic and national exchange with a screen based trading system listing an entirely new set of companies of small size. It allowed companies with a paid up capital as low as 30 lacs to get listed. It brought screen based trading system in vogue for the first time; this was quite different from the open outcry system at BSE. Moreover, each strip listed on the exchange had at least two market makers who continuously gave two way quotes. Market makers are merchant bankers willing to make a market in securities by continuously offering buy and sell quotes. They act as a dealer cum stockiest and do not charge any commission or brokerage. Their profit margin is the spread between the bid and offer prices. A voluntary market maker can be appointed for a period of six months. Market making is a unique concept of OTCEI. The other player on OTCEI is the custodian or registrar a safe keeper of share certificates. The OTCEI provides a liquid cash market for retail investors with a T+3 rolling settlement systems and no problem of bad of short deliveries.

4. Regional Stock Exchanges

The regional stock exchanges provided investors an access to big brokers in Mumbai. They also served as a link between the local companies and local investors. They promoted trading in local scripts. This lead to a competition among issuer and they listed their securities on as many exchanges as possible to attract investors from all over the country. Each regional stock exchange followed its own practice and procedures in respect of listing and trading of securities, clearing and settlement of transaction, and risk containment measures.

Following exchanges are Regional Stock Exchanges.

1. Bombay Stock Exchange
2. National Stock Exchange
3. Over The Counter Stock Exchange
4. Kolkata Stock Exchange
5. Uttar Prades Stock Exchange
6. Ahmedabad Stock Exchange
7. Delhi Stock Exchange
8. Pune Stock Exchange
9. Ludhiana Stock Exchange
10. Bangalore Stock Exchange
11. Hyderabad Stock Exchange
12. Saurashtra and Kachchh Stock Exchange
13. Chennai Stock Exchange
14. Madhyaprades Stock Exchange
15. Vadodara Stock Exchange
16. Guwahati Stock Exchange
17. Bhuvaneshwar Stock Exchange
18. Coachin Stock Exchange
19. Magadh Stock Exchange
20. Coimbatore Stock Exchange
21. Jaipur Stock Exchange
22. Manglore Stock Exchange

1.11 Stock Market Indices—Global and Domestic (32 to 35)

The stock market index is the most important indexes of all as it is a set of stocks that are representative of the market. The stock market index is a barometer of market behavior. It reflects market direction and indicates day to day fluctuations in the stock prices. An ideal index must represent price movements of typical shares for better market representation. The index on a day is calculated as the percentage of the aggregate market value of the set of scripts incorporated in the index on that day to the average market value of the same scripts during the base period.

The stock market index is a convenient and effective product due to the following reasons:

1. It acts as a barometer for market behavior.
2. It is used to benchmark portfolio performance.
3. It helps to allocate scarce resources to the best performed companies reflected through best performed scrips.
4. It is used as a forecasting tool to predict the future movement of stock indices and also the business cycles.
5. It is used in derivative instruments like index futures and index options.
6. It can be used for passive fund management as in the case of index funds.
Indexes of BSE

1. SENSEX:
BSE SENSEX or Bombay Stock Exchange Sensitive Index is a value-weighted index composed of 30 stocks started in April, 1984. It consists of the 30 largest and most actively traded stocks, representative of various sectors, on the Bombay Stock Exchange. These companies account for around one-fifth of the market capitalization of the BSE. At irregular intervals, the Bombay Stock Exchange (BSE) authorities review and modify its composition to make sure it reflects current market conditions. The index is calculated based on a free-float capitalization method; a variation of the market cap method. Instead of using a company's outstanding shares it uses its float, or shares that are readily available for trading. The free-float method, therefore, does not include restricted stocks, such as those held by company insiders.

2. BSE National Index:
This made is trade up of 100 scrips with 1982-84 as the base year. The special features of this index is that it includes prices of scrips in other major Region stock exchanges i.e. Delhi, Calcutta, Ahmedabad and Madras, bangulore etc. The average price of the scrip is taken for the compilation of the index.

3. BSE 200:
It was introduced in May 1994 wit 1989-90 as the base year. This index consists of equity shares of 200 companies selected on the basis of market capitalisation, volume of turnover and strength of the companies fundamentals. It comprises if scrips of both specified and non-specified groups. The average price of the scrip is taken for the compilation of the index.

4. Dollex:
Dollex is nothing but BSE-200 Dollar values so that may be useful to foreign investors. This index consists of equity shares of 200 companies selected on the basis of market capitalisation, volume of turnover and strength of the companies fundamentals. It comprises if scrips of both specified and non-specified groups. In Dollex, The BSE 200 is modified by dividing the current rupee market value by rupee-dollar conversion rates.
5. BSE 500

It was introduced in 1999 with the base year 1999 itself. It is treated to be a standard index covering all sections of the economy as well as the major part of capitalization. This index consists of equity shares of 500 companies selected on the basis of market capitalisation, volume of turnover and strength of the companies fundamentals. The average price of the scrip is taken for the compilation of the index.

Indexes of NSE:

The common and popular name of the NSE index in CNX index All NSE indexes are prepared by the Indian Index Services and products Ltd. (IISL) which is as join venture of NSE and CRISIL and S & P.

The CNX stands for following:

C = CRISIC
N = NSE
X = Index

The letters S & P with any index indicates that it is supported by standard and poor.

1. S & P CNX NIFTY:

It is popular index of NSE. It was introduced in April 96 with 95 as the base year. It comprised of a well-diversified 50 stock index accounting for 23 sectors of the economy of the total traded value of NIFTY stocks is about 59% of the total market capitalization. The average price of the scrip is taken for the compilation of the index.

2. S & P CNX DIETY:

It is popular index of NSE. It is nothing but S & P CNX NIFTY expressed in dollars and hence, it is basically a dollar dominated index. So that may be useful to foreign investors. It comprised of a well-diversified 50 stock index accounting for 23 sectors of the economy of the total traded value of NIFTY stocks is about 59% of the total market capitalization. The average price of the scrip is taken for the compilation of the index. It is computed at one line rupee, Dollar exchange rate.
3. CNX NIFTY Junior:
This index was launched in December 1996 and S & P CNX NIFTY and CNX NIFTY Junior together account for 100 most liquid stocks in India. The average price of the scrip is taken for the compilation of the index. The two indexes are synchronized so that they will always operate as disjoint sets in the sense that as that a stock will never appear in both indexes at the same time.

4. S & P CNX 500 Equity Index:
It comprises of 500 stock covering 79 companies. It is purely a market capitalization weighted index. It covers 97% of the total turnover in BSE and 73% of the total market capitalization.

5. CNX Midcap 200 Index:
As per the very name implies, it is the index for the stock of mid cap companies, covering industries having market capitalization between Rs. 150 crores and Rs. 1000 crores.

6. CNX Segment Indexes:
This index reflects the stock market performance of the various segments of the Indian corporate sector like multinationals, and PSUs etc.

7. NSE Government Security Index:
This index is meant for all government of India bonds issued after April 1992 but redeemable after 1997. The base date of the Index is 1st January, 1997. This index is calculated on daily basis with the help of market capitalization.
Table 1.1 Global Stock Market Indices:

<table>
<thead>
<tr>
<th>Indices</th>
<th>Country</th>
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<tbody>
<tr>
<td>AEX General</td>
<td>Netherlands</td>
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<tr>
<td>ALL Ordinaries</td>
<td>Australia</td>
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<tr>
<td>All Share</td>
<td>Shrilanka</td>
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<td>ATX</td>
<td>Austria</td>
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<td>BEL-20</td>
<td>Belgium</td>
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<td>Bovespa</td>
<td>Brazil</td>
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<tr>
<td>CAC 40</td>
<td>France</td>
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<td>DAX</td>
<td>Germany</td>
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<tr>
<td>DJIA</td>
<td>United States</td>
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<tr>
<td>FTSE-100</td>
<td>United Kingdom</td>
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<td>HangSeng</td>
<td>Hong Kong</td>
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<tr>
<td>IPC</td>
<td>Mexico</td>
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<tr>
<td>Jakarta Composite</td>
<td>Indonesia</td>
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<tr>
<td>KLSE Composite</td>
<td>Malaysia</td>
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<tr>
<td>Madrid General</td>
<td>Spain</td>
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<tr>
<td>MerVOL</td>
<td>Argentina</td>
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<td>MTBTel</td>
<td>Italy</td>
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<tr>
<td>NASDAQ</td>
<td>USA</td>
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<tr>
<td>Nikki 225</td>
<td>Japan</td>
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<tr>
<td>PSE Composite</td>
<td>Philippines</td>
</tr>
<tr>
<td>S &amp; P 500</td>
<td>USA</td>
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<tr>
<td>Seoul Composite</td>
<td>South Korea</td>
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<td>SET</td>
<td>Thailand</td>
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<td>Shanghai Composite</td>
<td>China</td>
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<td>Stralts Times</td>
<td>Singapore</td>
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<td>Swiss Market</td>
<td>East Israel</td>
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<tr>
<td>Taiwan Weighted</td>
<td>Taiwan</td>
</tr>
</tbody>
</table>

(Source: www.Capitalmarket.com)
1.12 Emerging Patterns And Regulatory Changes: (36)

Implications of change in technology

More powerful and functional computers and newer telecommunications technologies have facilitated the development of new trading venues for equities. These new venues offer investors a wide range of alternatives for entering orders and executing trades. Some of the new trading mechanisms also offer speedier executions or greater anonymity, which are important to some type of investors. At the BSE, a new initiative WebEx allows investors to trade directly through the Internet. The investor is required to quote a broker code, but the transaction is put through directly through the Internet. Further, all investors (whether trading through the WebEx or otherwise) have a facility to confirm their trades through the website: www.bseindia.com. They can punch in their transaction details to know what time their trade was executed and at what price.

Trading Cycle

Earlier, settlement was done at the end of the settlement period which varied from 14 days to 30 days, depending on the securities traded. The introduction of the rolling settlement in 2001, led to the settlement being carried out in T+5 days, i.e., the 5th day after the trade. This settlement time reduced to T+3 in 2002 and T+2 in 2003. This is in accordance with international standards.

Demutualization

Stock exchanges were owned, controlled and managed by brokers. This led to a conflict of interest over the settlement of disputes as self got precedence over regulations. The regulators advised the stock exchanges for 51% representation by non-broker members. In May 2007, 51% of the equity share capital of the BSE was placed with Indian Corporate, non-broker members, private equity funds etc.

1.13 Reforms in Capital Market (37 to 39)

1. The 1990s have witnessed the emergence of the securities market as a major source of finance for trade and industry in India.

2. 1992-93 - allowed the Indian corporate sector to have access to global capital markets through issue of Foreign Currency Convertible Bonds (FCCBs)/Equity Shares under the Global Depository Mechanism.
3. A growing number of companies have been accessing the securities market rather than depending on loans from financial institutions / banks.

4. The corporate sector is increasingly depending on external sources for meeting its funding requirements.

5. Several measures have been taken in the last decade and half to make the securities market in India better regulated, more efficient and generally safer.

6. The regulator, SEBI, is regarded throughout the world as independent and effective.

7. The regulator has put in place a well-designed disclosure-based regulatory regime.

8. Information technology is extensively used in the securities market.

9. The most advanced and scientific risk management systems are also employed by stock exchanges.


11. Dematerialisation of Securities-1997

12. Disclosure and Inv Protection Guidelines-2000-compliance with due skill, diligence and care, disclose truth


15. Globalisation on Raising Resources- ADR/GDR/FCCB AND ECB,MF can set up offshore funds for investing in equities

16. Demutualisation and Corporatisation-2004

17. Derivative Trading

18. Risk Management-

19. Clearing Corporation

20. Settlement Guarantee Fund

21. Real Time Monitoring

22. Var Based Margining-2001

23. Automatic Disablement Etc.

24. Regulatory and Supervisory System-IOSCO Consistent

25. Measures Taken On Patil Committee Recommendations on Developing Bond Market:

26. SCRA Amendment Act 2007: The Securities Contracts (Regulation) Amendment Bill, 2007 was enacted in May, 2007 which provides for a legal framework for trading of securitized debt.
27. FII Inv Limit on Government Securities raised phase-wise from $1.75b in 2006 to $3.2b in 31.3.2007
28. FII Inv Limit on corporate debt raised from $0.5b to $1.5b
29. Stamp Duty on Debt-Initiative- in the process
31. Streamlining the disclosure requirements for corporate bond issuances- in the process
   i. Budget announcement of 2007-08  PAN the sole identification number for all participants in the securities market - SEBI issued the necessary circular and the same came into force with effect from 2nd July, 2007.
   ii. June, 2006- Government permitted unlisted companies to sponsor an issue of ADRs / GDRs.
   iii. May 2007 -A Committee has been set up by Government to review the entire ADR/GDR policy with a view to streamlining FCCB/ADR/GDR procedures to enable Indian companies to have greater and smoother access to international capital markets.
   iv. Domestic mutual funds are permitted to invest in overseas instruments subject to an overall ceiling of $3 billion, which has been recently raised to $ 5 billion.
   v. The National Institute of Securities Markets (NISM) has been set up for teaching and training intermediaries in the securities markets and promoting research.
32. Extensive Capital Market Reforms were undertaken during the 1990s encompassing legislative regulatory and institutional reforms. Statutory market regulator, which was created in 1992, was suitably empowered to regulate the collective investment schemes and plantation schemes through an amendment in 1999. Further, the organization strengthening of SEBI and suitable empowerment through compliance and enforcement powers including search and seizure powers were given through an amendment in SEBI Act in 2002. Although dematerialization started in 1997 after the legal foundations for electronic book keeping were provided and depositories created the regulator mandated gradually that trading in most of the stocks take place only in dematerialized form.
33. Till 2001 India was the only sophisticated market having account period settlement alongside the derivatives products. From middle of 2001 uniform rolling settlement and same settlement cycles were prescribed creating a true spot market.

34. After the legal framework for derivatives trading was provided by the amendment of SCRA in 1999 derivatives trading started in a gradual manner with stock index futures in June 2000. Later on options and single stock futures were introduced in 2000-2001 and now India’s derivatives market turnover is more than the cash market and India is one of the largest single stock futures markets in the world.

35. India’s risk management systems have always been very modern and effective. The VaR based margining system was introduced in mid 2001 and the risk management systems have withstood huge volatility experienced in May 2003 and May 2004. This included real time exposure monitoring, disablement of broker terminals, VaR based margining etc.

36. India is one of the few countries to have started the screen based trading of government securities in January 2003.

37. In June 2003 the interest rate futures contracts on the screen based trading platform were introduced.

38. India is one of the few countries to have started the Straight through Processing (STP), which will completely automate the process of order flow and clearing and settlement on the stock exchanges.

39. RBI has introduced the Real Time Gross Settlement system (RTGS) in 2004 on experimental basis. RTGS will allow real delivery v/s. payment which is the international norm recognized by BIS and IOSCO.

40. To improve the governance mechanism of stock exchanges by mandating demutualization and corporatization of stock exchanges and to protect the interest of investors in securities market the Securities Laws (Amendment) Ordinance was promulgated on 12th October 2004. The Ordinance has since been replaced by a Bill.
1.14 The Bulls and the Bears (40 to 42)

The Bulls
A bull market is when everything in the economy is large, people are finding jobs, GDP is rising, and stocks are rising. Possessions are just plain rosy! Picking stocks during a bull market is easier because everything is going up. Bull markets cannot last forever though, and sometimes they can lead to dangerous situations if stocks become overvalued. If a person is an optimist, believing that stocks will go up, he is called a bull and said to have a bullish outlook.

The Bears
A bear market is when the economy is bad, recession is looming, and stock prices are falling. Bear markets make it tough for investors to pick profitable stocks. One solution to this is to make money when stocks are falling using a technique called short selling. Another strategy is to wait on the sidelines until you feel that the bear market is nearing its end and only then start buying in anticipation of a bull market. If a person is a pessimist, believing that stocks are going to drop, he is called a bear and said to have a bearish outlook.

1.15 Conclusion
This chapter shows an overview of Indian capital market. It related with the various aspect of the Indian capital market which includes concept, meaning, nature, and scope of the capital market and origin, history, development of the Indian capital market. Moreover, it also defines trend of Indian stock market and capital market circumstance at time of global crisis. There are Different stock exchanges also discussed under this section.

The issues of instability of Indian stock market have become gradually more vital matter India is fast becoming engines for future growth. Indian having a most excellent economy in the world in spite of that market performance always highly volatile, so, India is facing problems of its own like the 2G spectrum scam, ISRO Scam, Financial scams, Fiscal Deficits, rising commodity prices etc. Another problem is the confidence of serious investors which has weakened because of issues like Corporate Governance and such investors are not easy to convince.
Any issues related to the corporate governance, investors simply dump those stocks and such stocks may see insane share prices. After all the governance makes or breaks a corporate and investors trust is bound to lose. In the long term future of Indian stock exchange is undoubtedly very bright and rising but at the same time Chinese stock exchange is also soaring high and unarguably US market is on the top and India can reach these heights only when the above mentioned problems is solved.

There are many factors influenced on Indian capital market like as macro economic factors, global stock market performance, foreign investments, government and politic interferences, behavior of investors etc.

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