CHAPTER II

RECENT TRENDS IN CAPITAL MARKET
In this chapter, it is proposed to study in detail the recent developments in the capital market. Many important changes have taken place in the Indian capital market during the past 10 years. These changes led to a phenomenal growth in equity cult. The number of companies both new and existing, coming out with public issue of shares, partly convertible debentures and non-convertible debentures has been increasing by leaps and bounds. The year 1990-91 witnessed an important milestone in the capital market - a quantum leap in the total volume of shares offered through public issue. A number of servicing and supporting institutions have emerged in tune with the above mentioned factor. A brief description of these developments is given under the following paragraphs.

**MERCHAND BANKING**

Merchant banking is traditionally a British concept, originated and thrived in London Money Market. The concept of merchant bank was brought into India and its establishment of the merchant banking division by the Grindleys Bank in 1969. Subsequently, a number of other big financial institutions have established merchant banking divisions, such as Citibank opened a merchant banking division in 1970 and State Bank of India in 1972. Later the ICICI has set up its merchant banking division followed by the Syndicate Bank, Bank of India, Bank of Baroda, the Chartered Bank, Mercantile Bank etc. Merchant bankers are specialised agencies whose main business is to attract money from the public through Capital Market.

Merchant bankers undertake many activities relating to capital issue and play different roles like managers, co-managers, underwriters, consultants, advisors, portfolio managers, sponsoring of issues, credit syndication, servicing of issues, investment managing and other specialised activities. The last couple of years have brought many changes in Indian economy and the
ongoing liberalization process supports this trend through its structural and functional changes in Indian industry. The resources mobilization still remains the primary business of the merchant banker. The dynamics of this activity has undergone substantial alterations. Merchant bankers are classified into four categories by the SEBI.

**Category 1:** These are permitted to undertake any activity relating to issue management and also the functions of managers, co-managers, portfolio mangers, underwriters, consultants and advisors for capital issues.

**Category 2:** These are permitted to undertake the functions of co-managers, portfolio managers, underwriters, consultants and advisors for capital issues.

**Category 3:** These are permitted to undertake the functions of underwriters, consultants and advisors to capital issues.

**Category 4:** These are permitted to undertake only the functions of advisors or consultants to capital issues.

Consequent to the re-registration and re-categorisation of merchant bankers on the above-simplified SEBI norms, the Indian capital market has witnessed the entry of merchant bankers in large numbers. Based on the data available upto September 30, 1993, the total number of merchant bankers authorised by the SEBI stands at 180 of category 1, as against only 71 as on March 31, 1991, 80 as on March 31, 1992 and 130 as on March 31, 1993.¹

**REGULATION OF SECURITIES MARKET IN INDIA**

The Securities business in India today comes under the jurisdiction of four different laws or regulatory bodies. They are:

2. The Indian Companies Act.


4. Finance Ministry's Controller of Capital issue (presently SEBI)

The Companies Act specifies the disclosure requirements and other corporate behaviour of its management vis-a-vis investors. For new issues, the Companies Act insists issuance of prospectus. The Act also controls the periodic disclosure of accounting and other financial information to its shareholders.

The Securities Contracts (Regulation) Act, 1956 permits only those stock exchanges which have been recognised by Central Government in any notified area. Under the Act, the Government has framed the Securities Contracts (Regulation) Rules, 1957 for carrying into effect the object of the legislation. These rules provide among things, the procedure to be followed for recognition of stock exchange, annual reports, submission of periodical returns, requirements for listing of securities. Every Stock Exchange has its own bye-laws for regulation of Stock Exchange.

**ABOLITION OF CONTROLLER OF CAPITAL ISSUES**

The office of the controller of Capital Issues was set up in 1946 primarily to allocate scarce financial resources when no licencing for industry existed. New capital issues including bonus shares by capitalisation of resources were governed by the Capital Issues (Control) Act, 1947. The main objectives of the control are:
1. To ensure that investment does not take place contrary to the objectives of the Five Year Plans or flow into unproductive or wasteful channels;

2. To further the growth of Joint Stock Companies with sound capital structure, and

3. To avoid undue concentration or overcrowding of public issues in a particular period or a part of a period.

Thus the office of the Controller of Capital Issues was involved in approving the kind of instrument, size, timing and premium for capital issues. Thus securities business in India till recently has been under the jurisdiction of the Controller of Capital Issues under the Capital Issues (Control) Act, 1947.

The control on capital issues has been abolished in May, 1992, by a Presidential Ordinance. The Capital Issues (Control) Repeal Ordinance, 1992 was issued on 29th May 1992. The Ordinance has been put into force from the time of its issue i.e., from 29th May, 1992. Accordingly, the Capital Issues (Control) Act, 1947 has been repealed. Before abolition, the controls on capital were exercised by the Office of the Controller of Capital Issues. The SEBI has taken over the functions of controller of Capital Issues.

CREDIT RATING

At present there are two credit agencies in the country. They are:

1. CRISIL 2. ICRA

1. The Credit Rating Information Services of India Ltd (CRISIL)

This first rating agency in India was promoted in 1987 by the Industrial Credit and Investment Corporation of India Ltd (ICICI) and the Unit Trust of
India (UTI). A number of financial institutions are the shareholders in CRISIL like: Assam Development Bank, Life Insurance Corporation of India, the State Bank of India, Housing Development Finance Corporation Limited, General Insurance Corporation of India and its subsidiaries, Standard Chartered Bank, Banque Indosuez, Sakura Bank, Bank of Tokyo, Hongkong and Shanghai Banking Corporation, Citi Bank, Grindlays Bank, Deutsche Bank, Societe Generale, Banque Nationale de Paris, Bank of India, Bank of Baroda, UCO Bank, Canara Bank, Central Bank of India, Allahabad Bank, Indian Overseas Bank, Vysya Bank Ltd and Bank of Madhura Ltd.

The objective of the CRISIL is to rate debt obligations of Indian companies. Its rating provides a guide to investors as to the degree of certainty of timely payment of interest and principal on a particular debt instrument. CRISIL rates debentures, fixed deposits, short-term instruments like commercial paper, structured obligations and preference shares. CRISIL rating symbols indicate in a summarised manner, its current opinion as to the relative safety of timely payment of interest and principal on a debenture. It issues CRISIL Card which is in a loose leaf form which gives the basis used and parameters adopted. Each CRISIL card covers one company. It contains analysed financial information for the latest years, industry overview and key data, foreign collaboration, share price movements etc. In 1991-92, CRISIL assigned ratings to 155 debt instruments of 103 companies worth Rs. 5,866.5 crores. From its inception till November 1992, CRISIL rated a total of 491 debt instruments issued by 315 companies including 5 in public sector involving a total sum of Rs. 20,980 crores. CRISIL also completed the credit assessment of 70 small companies up to November, 1992.
2. Investment Information and Credit Rating Agency of India (ICRA):

The second credit rating agency is Investment Information and Credit Rating Agency of India Ltd (ICRA). Investment Information and Credit Rating Agency of India Ltd (ICRA) has been set up as an independent and professional credit rating agency promoted by Industrial Finance Corporation of India jointly with other leading financial institutions, commercial banks and financial service companies. The primary objective of ICRA is to provide guidance to investors or the creditors in determining the credit risk associated with a debt instrument/credit obligation. ICRA ratings reflect independent, professional and impartial assessment of such instruments/obligations. The ICRA rating is a symbolic indicator of the current opinion of the relative capability of timely servicing of the debts and obligations. Thus, the ICRA ratings/assessments help the borrowing companies to access Money Market and Capital Market for tapping large volume of resources from a wider range of investing public. Its ratings cover long-term including debentures, bonds and preference shares, medium-term including deposits, short-term including commercial paper.

In 1991-92, ICRA rated 47 debt instruments of 34 companies worth Rs.1,161.8 crores. During the 15 months ended 30th November, 1992, ICRA rated 199 debt instruments of 81 companies involving a total sum of Rs. 3,537.87 crores. It has also computed 2 credit assessment and 2 general assessments during this period.³

SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

SEBI has been established in the year 1992 under the SEBI Ordinance. All the powers exercised earlier by the Controller of Capital Issue under the Capital Issues (Control) Act have been delegated to SEBI. It is the duty of
the SEBI under the Act to protect the interest of the investors and to promote
the development of Capital Market and regulate the Securities Market. SEBI,
since its establishment has taken a number of measures in important areas
operating securities market, like prohibition of insider trading, registration and
regulating collective investment schemes like mutual funds, registering various
intermediaries like brokers, sub-brokers, underwriters, investment advisors and
portfolio managers.

SEBI has been vested with wide ranging powers with a view to
promoting the development of Capital Market and to effectively regulate. Since
its establishment, it has been issuing a number of guidelines and regulations
on variety of aspects of its jurisdiction and in the discharge of its responsibilities.
In September 1992, SEBI issued a separate set of guidelines for development
of financial institutions, for disclosure and investor protection regarding their
raising of funds from the market.

After the abolition of the Capital Issues Control, SEBI has been made
the regulatory authority for new issues of companies. SEBI issued guidelines
for disclosures and investor protection to be observed by the companies
coming out with capital issues in the primary market. The guidelines are
followed by a series of clarifications. The following are the functions of SEBI:

1. Regulating the business in Stock Exchanges and any other securities
market.

2. Registering and regulating the working of stock brokers, sub-
brokers, share transfer agents, bankers to an issue, trustees of trust deeds,
registrars to an issue, merchant bankers, underwriters, portfolio managers,
investment advisors and such other intermediaries who may be associated
with securities markets in any manner.
3. Registering and regulating the working of collective investment schemes, including mutual funds.


5. Prohibiting fraudulent and unfair trade practices relating to securities markets.

6. Promoting investors' education and training of intermediaries of securities markets.

7. Prohibiting insider trading in securities.

8. Regulating substantial acquisition of shares and take-over of companies.

9. Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges and intermediaries and self-regulatory organisations in the securities market.

10. Performing such functions and exercising such powers under the provisions of the Capital Issues (Control) Act, 1947 (29 of 1947) and the Securities Contracts (Regulation) Act, 1956 and the Securities Contracts (Regulation) Act, 1956 (42 of 1956), as may be delegated to it by the Central Government.

11. Levying fees or other charges for carrying out the purposes of this section.

12. Conducting research for the above purposes.

13. Performing such other functions as may be prescribed.
OVER THE COUNTER EXCHANGE OF INDIA (OTCEI)

The Over-the Counter Exchange of India (OTCEI) was established in August, 1989 and became operational on September 29, 1992. The trading operations were started on October 6, 1992. The operations recorded showed that by the end of March 1993, 7 scrips were listed with OTCEI, increased to 8 scrips by the end of June 1993. The monthly turnover of OTCEI moved up to Rs. 40.1 lakh during March 1993 from Rs.16.9 lakhs in October, 1992. It has also started trading in debt instruments with effect from May 1993 with Infrastructure Leasing and Financial Services Ltd (IL & FS). It signifies as the compulsory market maker.

OTCEI is a company incorporated under the Indian Companies Act, 1956, with the main objective of setting up an operative and over the counter exchange in India. It is promoted by some of the financial institutions and bank subsidiaries like Unit Trust of India (UTI), ICICI, IDBI, IFCI, LIC, GIC and its subsidiaries, SBI Capital Market and Canbank Financial Services.

OTCEI is a recognised stock exchange under Section 4 of the Securities Contract (Regulation) Act, 1956. It is a stock exchange recognised by the Government of India in the same manner as the other stock exchanges in the country are recognised. 'Over-the-counter' basically implies trading across the counter in shares and securities which are listed on this stock exchange. The OTCEI would operate as a parallel exchange to all the other exchanges currently operating in the country. The fundamental difference between the other stock exchanges and OTC exchange is that as against a public outcry system of trading used in traditional exchanges, the OTC exchange would have a screen-based trading system achieved using telecommunication links. Screen-based trading system indicates that the
deal takes place right in front of the eyes of the investors, thus lending complete transparency to the transaction.

NEW ISSUE MARKET (NIM)

New Issue Market is one of the constituents of the Industrial Securities Market in India. The New Issue Market deals with those securities which have not been available previously to the public and are made available for the first time. The New Issue Market is linked with the stock Exchange and exclusively deals with new securities. The New Issue Market provides the issuing company with additional funds for starting new enterprises. The major functions of the New Issue Market are originating, underwriting and distribution. It facilitates transfer of resources from the savers to the users. The New Issue Market can be classified into two categories like new companies which issue initial capital and old companies which issue for further capital. This market indicates the flow of new money and hence there is new money issues. Originating is a function where work begins before the issue is actually floated. It includes all initial spade work. Underwriting is a specialised service, which is only a stop-gap arrangement to guarantee the issue. The third function, distribution is concerned with the sale of securities to ultimate investors.

The market for new issues exhibited accelerated activities. During 1992-93 there were 1,037 new issues amounting to Rs. 19,825.6 crores registering a 244.4 per cent increase over those in the earlier year. The data of new issues indicate that the amount of equities and debentures was almost equally split. Equity issues recorded Rs.9,981.8 crores through 867 issues. There was only one preference share issue for Rs. 0.5 crore during 1992-93 as against Rs. 1.5 crore for 3 issues in 1991-92. Debenture issues aggregated Rs.9,844.0 crore through 169 issues in 1992-93 recording an
increase of 144.6 per cent over the previous year’s Rs. 4,024.0 crore through 146 issues. Amount on convertible debenture issues went up by 124.9 per cent and non-convertible debentures spurted up by 275.5 per cent in 1993. Table 2.1 depicts trend of new capital issues by non-government public limited companies.

Approvals by Controller of Capital Issue to Government and non-government companies till end of May 1992, for raising capital in the turn of equities, debentures, public bonds and bonus shares aggregated to Rs. 21,221 crores during 1992-93. It represents an increase of 9.4 per cent over those in the preceding year. The bulk of the approvals was accounted on by non-government public limited companies.

Table 2.2 shows approvals for new issues of both Government and non-government companies. The approvals for non-government companies during 1992-93 was Rs. 20,841 crores of 1,328 approvals, whereas the three approvals of Government companies amounted to Rs. 380 crores.

FOREIGN INSTITUTIONAL INVESTORS (FIIs)

In the year 1990-91, the Government desired to accelerate the process of economic liberalisation. The Government has announced the guidelines for Foreign Institutional Investments in the Indian stock market. The country invited direct foreign investment up to 51 per cent in priority areas. Foreign Institutional Investment in the capital market will, however, be subject to a ceiling of 24 per cent of issued share capital in any company. The holding of a single FI in any company will also subject to a ceiling of 5 per cent of total issued capital.

Registration has been granted by SEBI to various Foreign Institutional Investors. The total number of FIIs who have been now allowed to operate...
TABLE 2.1  
NEW CAPITAL ISSUES BY NON-GOVERNMENT PUBLIC LIMITED COMPANIES  
(Rs. in crores)

<table>
<thead>
<tr>
<th>Year (April-March)</th>
<th>Equity Shares</th>
<th>Preference Shares</th>
<th>Debentures</th>
<th>Total</th>
<th>Grand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of issues</td>
<td>Amount (Rs.)</td>
<td>No. of issues</td>
<td>Amount (Rs.)</td>
<td>No. of issues</td>
</tr>
<tr>
<td>1988-89</td>
<td>256</td>
<td>1033.6 (47)</td>
<td>6</td>
<td>3.3</td>
<td>48</td>
</tr>
<tr>
<td>1989-90</td>
<td>269</td>
<td>1220.2 (56)</td>
<td>4</td>
<td>7.9</td>
<td>109</td>
</tr>
<tr>
<td>1990-91</td>
<td>246</td>
<td>1284.3 (40)</td>
<td>3</td>
<td>13.1</td>
<td>94</td>
</tr>
<tr>
<td>1991-92**</td>
<td>368</td>
<td>1731.3 (58)</td>
<td>3</td>
<td>1.5</td>
<td>133</td>
</tr>
<tr>
<td>1992-93**</td>
<td>857</td>
<td>9981.1 (324)</td>
<td>1</td>
<td>0.5</td>
<td>150</td>
</tr>
<tr>
<td>April-June 1992**</td>
<td>158</td>
<td>1849.1 (20)</td>
<td>-</td>
<td>-</td>
<td>38</td>
</tr>
<tr>
<td>1993**</td>
<td>163</td>
<td>2287.2 (78)</td>
<td>1</td>
<td>2.5</td>
<td>30</td>
</tr>
</tbody>
</table>

Note: CD: Convertible Debentures; NCD: Non-Convertible Debentures.  
*: Exclude Bonus Shares : **: Provisional. Figures in brackets indicate data in respect of premium on capital issues, which are included in respective totals. Convertible debentures include partly convertible debentures. Non-convertible debentures include secured premium notes. 
TABLE 2.2
APPROVALS FOR NEW ISSUES OF GOVERNMENT AND NON-GOVERNMENT COMPANIES
(Rs. in Crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Non-Government Companies (1+2)</td>
<td>1074</td>
<td>(97.19)</td>
<td>6425</td>
<td>(30.86)</td>
<td>1243</td>
<td>(98.42)</td>
<td>12341</td>
<td>(63.61)</td>
</tr>
<tr>
<td>1. Equities</td>
<td>841</td>
<td>(78.31)</td>
<td>2854</td>
<td>(44.42)</td>
<td>868</td>
<td>(69.83)</td>
<td>4291</td>
<td>(34.77)</td>
</tr>
<tr>
<td>2. Debentures/Bonds</td>
<td>233</td>
<td>(21.69)</td>
<td>3571</td>
<td>(55.58)</td>
<td>375</td>
<td>(30.17)</td>
<td>8050</td>
<td>(65.23)</td>
</tr>
<tr>
<td>B) Government Companies (1+2)</td>
<td>31</td>
<td>(2.81)</td>
<td>6208</td>
<td>(49.14)</td>
<td>20</td>
<td>(1.58)</td>
<td>7061</td>
<td>(36.39)</td>
</tr>
<tr>
<td>1. Equities</td>
<td>14</td>
<td>(45.16)</td>
<td>201</td>
<td>(3.24)</td>
<td>3</td>
<td>(15.00)</td>
<td>76</td>
<td>(1.09)</td>
</tr>
<tr>
<td>2. Public sector Bonds</td>
<td>17</td>
<td>(54.84)</td>
<td>6007</td>
<td>(96.76)</td>
<td>17</td>
<td>(85.00)</td>
<td>6985</td>
<td>(98.92)</td>
</tr>
<tr>
<td>Total(A+B)</td>
<td>1105</td>
<td>12633</td>
<td>1263</td>
<td>19402</td>
<td>1331</td>
<td>21221</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Figures in brackets indicate percentage to total.
in India is 12. The Reserve Bank of India has also granted general permission under FERA to these FIIIs. These FIIIs are:

1. Scottish Equitable Far East Performance Trust (SEEPT)
2. Scottish Equitable International Trust (SEIT)
3. Sun Life Assurance Society Plc. (Sun Life)
4. Genesis Emerging Markets Fund (GEMF)
5. Aga Khan Fund for Economic Development (AKFED)
6. Barclays de Zoete Wedd Investment Management Limited (BZWIM)
7. Montgomery Emerging Markets Fund (MEMF)
8. Montgomery Asset Management LP Group Trust (MALP)
9. Fledgeling Nominees International Limited (FNIL)
10. Robert Fleming Nominees Ltd (RFNL)
11. GT Management (Asia) Limited (GTMA)
12. Lloyd George Investment Management (Bermuda) Ltd (LGIM)

**STOCKINVEST SCHEME**

Stockinvest scheme has been introduced basically to help the investing public. Over-subscription has created a lot of problems including time frame for completion of allotment procedure, despatch of allotment letters, refund orders etc. A number of companies have taken undue advantage of this situation. Over and above is the loss of interest on the application money. Soon after SEBI came into being, started to study the magnitude of the problem to protect the interests of the investors. Based on the suggestions of the SEBI, the State Bank of India finalised a scheme which envisaged the
introduction of a new instrument called ‘Stockinvest’. The scheme has been approved by the Reserve Bank of India and announced by the Department of Company Affairs on January 9, 1992. Stockinvest is an additional instrument and facilitate to deposit the application money in cash or by cheque or draft and continue to be available to investors. By its very nature, the stockinvest instrument is not a negotiable instrument as defined in Negotiable Instruments Act, 1881. The stockinvest scheme has advantages of getting interest on investors' fund. It avoids issuing refund orders etc.

THE STOCK HOLDING CORPORATION OF INDIA LIMITED (SHCIL)

The Stock Holding Corporation of India Ltd (SHCIL) was incorporated in 1987 jointly by IDBI, IFCI, ICICI, LIC, UTI, GIC and IRBI. SHCIL commenced operations in August 1988. It acts as a Central Securities depository in the country and provide well developed and fully automated infrastructural facilities for trading, clearance, settlement and depository services for securities and monetary instruments.

In the year 1992-93, SHCIL processed business of the order of Rs.4,470 crore recording a rise of 60.2 per cent over those in 1991-92. The total holdings in safe custody doubled from 9 million certificates as at March 31, 1992 to 18 million certificates as at the end of March 1993.

In the year 1992, SHCIL brought into its custody additional scrips of clients such as UTI, LIC Mutual Fund and GIC and its subsidiaries. SHCIL extended its custodial services to its clients namely LIC, ICICI, GIC Mutual Fund, SBI Mutual Fund, Oriental Insurance Company Limited and United India Insurance Company Limited. SHCIL was also appointed by Morgan Stanley Bank, Luxembourg as its security agent in India in respect of offshore fund viz., India Magnum Fund for which it acts as custodian.
THE NATIONAL STOCK EXCHANGE (NSE)

The National Stock Exchange was established in the year 1992 on the basis of the recommendations submitted by Pherwani committee in 1991. It is basically, a stock exchange without a trading floor. The financial institutions like IDBI, ICICI, IFCI promoted the NSE. The basic objective of setting up the National Stock exchange is to provide a competent system which should eliminate all the deficiencies of the existing system and to meet the demands of the increasing investor population.

The National Stock Exchange has two segments, one dealing with wholesale debt instruments and the other with capital market instruments. The wholesale Debt Market (WDM) provide facilities for banks, financial institutions and other institutional participants and intermediaries to enter into high value transactions in PSU bonds, treasury bills, Government Securities, call money, commercial paper etc., The capital market segment will cover equity shares, convertible debentures and other securities issued by companies. In July 1994, the Union Finance Minister Dr. Man Mohan Singh formally inaugurated the fully automated screen-based National Stock Exchange. The exchange is expected to usher in an era of modern trading system in securities and will also help in bringing the Indian capital market in line with international markets.

VENTURE CAPITAL

The concept of venture capital in its recognised sense is only of recent origin in India, whereas in Western Countries specially in U.S.A. it was popular even during late 60's. The need for Venture Capital in India was highlighted in the Finance Bill of 1986-87 whereby in order to launch the Venture Capital fund, the Government levied a cess (The Research and
Development Cess) on import of technology in the country to raise the required funds. In India, the new entrepreneurs have been facing difficulties in raising equity capital. Under these circumstances and to rescue them, the venture capital companies/funds have come into being to invest in new companies.

In November, 1988, the Venture Capital guidelines were issued by the Controller of Capital Issue. This indicates the initiative of the government. All India Financial Institutions, Commerical Banks and their subsidiaries have been authorised to launch venture capital companies. The scope of their assistance is basically for investing in newly formed units, expansion proposals and modernisation proposals. The Venture Capital companies and venture capital funds are treated as synonymous.

OTHER DEVELOPMENTS

1. The Government of India and also the Reserve Bank have initiated a number of policies. The Rangarajan Committee on "Disinvestment of Shares in Public Sector Enterprises" had investigated into the aspects of disinvestment and submitted its report in 1993. The committee has recommended that the limit of Government ownership should be 51 per cent in respect of units reserved for the public sector, which could be reduced to 26 per cent for other public sector enterprises.

2. In exercise of the powers conferred by Section 29 of the Securities and Exchange Board of India (SEBI Act, 1992), the Central Government announced the SEBI (Stock Brokers and Sub-brokers) Rules and Regulations, 1992. According to these rules, no person can act as a stock broker for the purpose of buying public selling or dealing in securities.
SEBI issued regulations pertaining to 'Insider Trading' in November 1992, prohibiting dealings, communication or counselling in matters relating to insider trading.

4. Similarly, SEBI’s Rules and Regulations on Merchant Bankers issued in December 1992 brought the merchant bankers under its regulatory framework. The regulations cover registration of merchant bankers, their obligations, responsibilities, procedures for inspection and action to be initiated against defaulting merchant bankers.

5. The Securities and Exchange Board of India (Portfolio Managers) Rules and Regulations, 1993 made by the Central Government, the SEBI accordingly sought to regulate the activities of Portfolio Managers covering their registration, code of conduct, inspection of books of accounts and actions to be initiated in case of default.

6. The Government has allowed Foreign Institutional Investors (FIIs), such as Pension funds, Mutual Funds, Investment Trusts, Asset or Portfolio Management Companies etc., to invest in the Indian Capital Market provided they register with SEBI.

7. IDBI has been mooting to set up a credit rating agency viz., Credit Analysis and Research Ltd. (CARE). It is a company in the name of Investor Services of India Ltd. (ISL). The objectives are, transfer and custodial services and a joint venture to undertake a full range of investment banking activities.

REFORM

The need for reform in the capital market has been evident for sometime. As in the case of capital market in India, there has been an
impressive expansion and growth in quantity but without adequate improvement in quality. The functioning of Stock Exchanges shows many shortcomings and lack of transparency in procedures and vulnerability in price rigging and insider trading. To counter these deficiencies, SEBI has been established to regulate the capital market with statutory powers. With this the process of reforms in capital market has just begun. The quality aspects in market to be achieved are: speedier conclusion of transition and greater transparency in operations, improved services to investors and greater investor protection and at the same time encouraging the corporate sector to raise resources directly from the market on an increasing scale. Major modernization of capital market is necessary to bring it on par with world standards in terms of transparency. Reliability is also necessary if foreign capital is to be attracted on any significant scale.

INNOVATIVE/HYBRID FINANCIAL INSTRUMENTS INTRODUCED IN NEW ISSUE MARKET

1. Secured Premium Notes (SPN) with Detachable warrants.

2. Non-Convertible Debentures (NCDs) with Detachable Equity Warrants.


4. Equity Shares with Detachable Warrants.

5. Fully Convertible Preference Shares (Eclipref).

6. Preference Shares with Warrants attached.

7. Secured Zero Interest Partly Convertible Debentures (PCDs) with Detachable and separately tradeable warrants.

8. Fully Convertible Debentures (FCDs) with Interest (Optional).
SECURITIES SCAM IN INDIA

The term 'Security Scam' refers to the diversion of funds from the banking system to various stock brokers in a series of transactions primarily in government securities. A historical event in Indian capital Market 'Securities Scam', took place during the period April 1991 to May 1992. The scam is in a sense a diversion of funds from the banking system (in particular the interbank market in government securities) to brokers for financing their operations in the stock market.

REFERENCES