CHAPTER IX

THE SPECIALISED MARKETS
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Specialised markets like Stock Market and Bill Market play an important role in the financial mechanism especially in the money market and hence they occupy a definite place in its set up. Each specialises in one particular field. The Stock Market is not only a barometer of economic activity but the forum of new floatations as well as investment of funds. A Bill Market is a chamber wherein transactions in the bills take place which provides liquidity, efficiency and autonomy to the funds of the money market. These services go a long way in perfecting the financial mechanism or in other words the money market of the area.

a) The Stock Market.

The Stock Market provides a means for the utilisation of individual savings into channels of maximum utility, provides the widest dissemination of knowledge about the affairs of corporate organisation, serves as index of commercial, industrial and financial stability and progress of a nation. This market inculcates the healthy spirit of corporate working leading to the possibilities of big capital floatations both by the State and Industries. A Stock market has been defined in various ways such as:

a) A forum of a market for the purchase and sale of industrial and finance securities;
b) An association of persons engaged in buying and selling of stocks, bonds, and shares for the public on commission;
c) An organisation where members deal in admitted securities in accordance with the established rules;
d) The Chief Theatre of business transaction;
e) The Barometer, which indicates the general conditions of the atmosphere of business, and
f) The mart of the world and nerve centre of politics and finance of a nation.

The most obvious relationship between the stock market and the money market arises out of the impact of the activities of the former on the demand for loanable funds in the latter. Buoyancy in the stock market is likely to be reflected in rising interest rates in the money market, and a set-back in market sentiment about shares depresses rates of interest. Thus the supreme importance of the stock market lies in its being "a part of both the short term and the long term markets".

The Stock Market in India not only assists the private enterprise, but also Government, semi-Government and local authorities in raising loans. The market for securities has two segments: one for raising 'initial' and 'further' capital, which may be called the New Issue Market, and the other for facilitating the transfer of capital and the 'expression' of 'liquidity preference' which is the Stock Exchange. The former derives its support from the operations of the latter which result in the changing of hands of securities. The two markets are, therefore, complementary to each other. In India, under section 73 of the Companies Act, 1956, an investor invests his money in an industrial undertaking in the knowledge that the shares will be quoted on the stock exchange. Thus, the stock exchange in India has emerged as a promoter of the market for new securities.

The stock exchange too has two sections - the 'auction' type of market, where trading in old securities takes place through a process of two-way bids, and the other, known as the 'over-the-counter' market or the 'negotiated' market, where dealings in Government securities and those of smaller companies take place.

Before the Bombay Securities Contracts Control Act, 1925, the Stock exchanges in India were autonomous institutions which lay beyond the pale of official control. The 1925 Act was enforced in the case of the Bombay Stock Exchange in 1926 and in the Ahmedabad
Stock Exchange in 1939. Government control on all-India basis first came to be exercised through the Defence of India Rules, 94-C, which was reactivated in September, 1946. With the enactment of the Securities Contracts (Regulation) Act, of 1956, however, well-considered legislation came into force on a nation-wide basis for the first time. This act was preceded by a comprehensive examination of the subject by a number of committees, such as one headed by A.D.Gowala in 1951, and the enactment of the Companies Act, 1956, which was concerned with the formation, management and widening up of companies. Understandably, the reform of companies and ensuring of their amenability to control had to precede legislation to control the stock exchange where the scrips of these companies are bought and sold.

The Securities Contracts (Regulation) Act of 1956, and the Securities Contracts (Regulation) Rules, drawn up in 1957, provide the legal framework for the Indian Stock Exchanges in their present forms. The Act of 1956 provides that no stock exchange will be permitted to be formed or to function unless it has been granted recognition by the Central Government. The Central Government has the power of withdrawing such recognition, superseding the Governing body in public interest or in the interests of trade, and also suspending business of a recognised stock exchange in a state of emergency.
A recognised stock exchange, under the Act of 1956, may make bye-laws with the approval of the Central Government, for the regulation and control of contracts. Broadly speaking, the Act applies to transactions other than spot-delivery contracts, and provides for a general system and apparatus of control, which has been described as unitary, without detailed or meticulous regulatory provisions relating to specific matters. The transaction in all securities that fall within this regulation could be conducted only through the 'recognised' stock exchanges and it is the policy of the Government to recognise only one stock exchange for any particular area.

The Indian stock exchanges markedly reveal a regional character, reflecting the industrial development in the area. Bombay has become the chief market for textile shares, Calcutta concentrates more on jute, coal, tea and mining, Madras being mainly a local market for plantation industries. Steel shares are more or less transacted equally on all exchanges. The operations on Calcutta Stock Exchange extend over a wide area and offer to the investors a large field for selection in coal, tea, cotton, sugar, iron, miscellaneous industrial concerns, banks, insurance, etc. Calcutta, in fact, is more of an investment market, while Bombay is more of a speculative market.

The rules, regulations and bye-laws of the various stock exchanges are more or less uniform; but entrance fees, membership deposits, etc., are different for different stock exchanges and are fixed by the Government in consultation with the stock exchanges concerned.

In the trading hall, where transactions take place, only the members of the stock exchange are admitted. The public have to effect their business of buying and selling securities through the mediation of members.  

Members of Stock Exchange generally fall into two classes, viz., jobbers and brokers. In the Indian stock exchanges, unlike the London Stock Exchange, there is no official distinction between jobbers and brokers. In fact, the jobbers in the Indian stock exchanges are few and far between and where they exist, they also carry on their broking business. In the Bombay Stock Exchange, the 'Taravaniwalas' whose function is jobbing, do not quote two prices, one for buying and the other for selling. Since they are interested in squaring up their position by the end of the day, they may accentuate fluctuations in the stock exchange. The brokers represent the public, but, on the Indian Stock Exchanges, principal-to-principal contract is also prevalent.

7. Ibid, p. 134
In addition to the members of the Stock exchange, their authorised agents called members' assistants or authorised clerks are entitled to enter the floor of the exchange. They do business for and on behalf of their principals. Each member is entitled to have two assistants. They have to pay admission fee and also a monthly subscription to the stock exchange to which they belong.

A security has to be officially listed and admitted by the stock exchange committee before it can be traded in on that Exchange. The listed securities may be classified as those of the Central and State Governments, local bodies like municipalities, port trusts, improvement trusts, etc., statutory companies and bodies like Industrial Finance Corporation, Local Electricity Board, etc., and securities of public companies, such as debentures, preference, ordinary or equity shares.

Listing of securities ensures certain prescribed standard of liquidity and safety and also the benefit of a broad and continuous market, where sales can be effected with despatch. The Central Government, under the Securities Contracts (Regulation) Act, of 1956, has the power to compel the listing of securities by public companies and also to hear appeals against refusal by stock exchanges, to enlist the securities of any public company. It is further provided that where a stock exchange refuses to enlist a security, the company concerned must be furnished with the reasons for such refusal.
The ordinary methods of dealings in securities are either for "money" or for the "account". The Calcutta Stock Market is mainly a cash market. Excepting some 18 scrips in the clearing schedules, transactions in the rest of the securities, quoted on the Calcutta Stock Exchange, are done on a 'cash delivery basis'. Most of the shares in the Madras Stock Exchange are also dealt in for cash, only 15 securities are now included in the Cleared Securities List.

Dealings for the account are predominant in Bombay. This involves Forward Trading, which means carrying over transactions from one settlement to another, known as a 'contango' or 'badla' transaction in Indian Market parlance.

As a sequel to forward trading, the practice of 'blank transfer', leaving the name of the buyer blank in the transfer deed, also developed in India. Since some evil practices become associated with this system, it was severely criticised by different committees and was banned by a Government Notification in June 1969. The ban was imposed with a view to curbing "unhealthy trends and to prevent undesirable speculation".


In India there are at present 8 recognised Stock Exchanges. Some vital statistical particulars with a bearing on them are given in the table below:

**TABLE No. 9-1**

STOCK EXCHANGES IN INDIA

<table>
<thead>
<tr>
<th>Name of Stock Exchange</th>
<th>No. of members</th>
<th>No. of companies quoted</th>
<th>No. of securities listed</th>
<th>Paid-up value of securities (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calcutta</td>
<td>660</td>
<td>671</td>
<td>1,115</td>
<td>576.54</td>
</tr>
<tr>
<td>Bombay</td>
<td>505</td>
<td>545</td>
<td>963</td>
<td>801.56</td>
</tr>
<tr>
<td>Madras</td>
<td>33</td>
<td>350</td>
<td>628</td>
<td>224.90</td>
</tr>
<tr>
<td>Delhi</td>
<td>105</td>
<td>143</td>
<td>279</td>
<td>39.59</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>463</td>
<td>132</td>
<td>267</td>
<td>163.14</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>55</td>
<td>36</td>
<td>57</td>
<td>31.82</td>
</tr>
<tr>
<td>Indore</td>
<td>N.A.*</td>
<td>15</td>
<td>21</td>
<td>16.07</td>
</tr>
<tr>
<td>Bangalore</td>
<td>25</td>
<td>140</td>
<td>170</td>
<td>236.45</td>
</tr>
</tbody>
</table>

Source: As Supplied by the Bangalore Stock Exchange. Figures at the end of 1974.

* Not Available.

With this background of importance of the stock market to the money market, its constitution, organisation and rules and regulations governing them in India, a study in particular of the Bangalore Stock Exchange, will be worthwhile.
The Bangalore Stock Exchange:

The Bangalore Stock Exchange was established in March, 1963 as a company registered under the Companies Act, 1956 at Bangalore after long deliberations. This Stock Exchange like any other Stock Exchange was formed with triple objects.

1) To provide an organised market for Karnataka for the purpose of assisting, regulating and controlling business in buying, selling and dealing in stocks, shares, bonds and debentures and other similar securities,

2) To promote, protect and safeguard the character, status and interests of brokers and dealers in stocks and shares carrying on business within Karnataka, and,

3) To maintain an exchange for the transactions of business in buying and selling of stocks in Karnataka.

The subscribed capital of the stock exchange is Rs. 25,000, divided into 250 shares of Rs. 100 each. Initially, under the rules the membership of the stock exchange was limited to 50. The actual membership, however, has not exceeded 25. Under the rules it was made obligatory for all the members to bring Rs. 500 as entrance fees and Rs. 1,000 as first instalment of security deposit money out of the total security of Rs. 5,000 to be kept either in cash or in securities. The members have to pay Rs. 25 as monthly subscription and Rs. 10 for every authorised agent.
The affairs of the stock exchange are controlled by a Board of management consisting of 9 members, seven of them are to be elected from members and two are to be nominated by the Central Government.

Under the bye-laws of stock exchange, two types of business viz., ready and forward, can be conducted. At present all transactions are conducted under the ready delivery system, as forward trading in shares is banned in India.

The stock market is an adjunct to the money market. It is through this market, the savings are directed into productive channels, liquidity provided to funds and balanced industrialisation is speeded up without causing gluts and stringencies. This organic relationship can be maintained and functions performed, provided the stock exchange is well developed, looked from this angle, the Bangalore Stock Exchange suffers from the following defects:

1) **Inadequate Operators:**

Brokers and jobbers form the backbone of the stock exchange as they are properly equipped with technical knowledge of the market, business acumen to inspire confidence in the investing public and the commercial issues. Unfortunately, the number of operators at this stock exchange is only 25 as against 660 in Calcutta and 504 in Bombay. What is more worse, some of them are also members of the latter two stock exchanges, leading to divided loyalty. The net effect of this is that it has resulted in inadequate activity at this exchange.
2) **Lack of efficient and trained personnel:**

The Bangalore Stock Exchange is short of trained and efficient personnel. On enquiry it was found that the stock exchange is short of trained and efficient personnel. Its secretariat is managed by a secretary assisted by one office Superintendent and three typists. Some of the operators and their authorised agents, and the personnel of the secretariat themselves lack experience and the technical knowledge about the operations of the stock exchange.

3) **Insufficient Scrips**

Scrips form the raw material of the stock exchange. The larger and sounder are the scrips dealt on a stock exchange, the more efficient is its working. For the present, only 117 securities are dealt in on this stock exchange as compared to 1,115 in Calcutta and 963 in Bombay.* Moreover, the holding of the popular scrips by local people is comparatively small. The lack of holdings here induces the investors to go in for outstation scrips. On an average per year, Rs. 4 to 5 crores of business is done in the last five years in this stock exchange.

4) **Heavy Listing Fees**

The following is the schedule of the listing fees levied by the Bangalore Stock Exchange.

* Vide Table No. 9-1.
1) The initial listing fee: Rs. 1,000

ii) Annual Listing Fee

For companies with paid-up share and/or debentures capital.

a) Under Rs. 10 lakhs Rs. 300
b) from Rs. 10 lakhs but under Rs. 25 lakhs Rs. 500
c) from Rs. 25 lakhs but under Rs. 50 lakhs Rs. 1,000
d) from Rs. 50 lakhs but under Rs. 1 crore Rs. 1,500
e) from Rs. 1 crores but under Rs. 5 crores Rs. 2,500
f) from 5 crores and over Rs. 3,000

The listing fee is considered to be heavy looking to the agricultural bias, comparative backwardness of industrialisation and large number of small public limited companies in the State. A downward revision of listing fees would enable a large number of companies to have their securities listed on the stock exchange.

Suggestions for the Development of Bangalore Stock Exchange:

In the above paragraphs we have seen how inadequately Bangalore stock exchange has been working and how weak is its impact on the money market of the country in general and the Bangalore money market in particular. A cross section of the society was informally interviewed by the researcher and from the talks he had, it will be possible to outline a few suggestions so as to improve the functioning of the Bangalore stock exchange.
1) **Minimum Qualification Clause:**

It is important to prescribe certain educational and/or professional qualifications for the membership of the stock exchange. The operators are sometimes required to do the conselling also and therefore it will be necessary that they are equipped with the necessary academic input. To begin with we may prescribe that every member will necessarily be at least a matriculate. This can gradually be raised to a degree in Commerce and/or Economics. On the other hand the authorised agents should not be less than a B.Com., It will be also in the interest of everybody if the stock exchanges of the country can devise ways and means for conducting a professional examination which will have to be cleared by all those who are interested in operating on the stock exchange. Through this process the public will certainly develop not only interest in the examination and/or the operators but there will be an awakening about the stock exchanges also.

2) **Proper Publicity:**

The wide spread participation in the security market must stem from wide spread public understanding of the Stock exchange and its services and wide spread public confidence in its administration. The stock exchange should devote a great deal of attention to the public relations programme and to the concepts of self regulation.
It should educate the masses and explain to them the mechanics, principles and advantages of investing in the shares and stocks and their role in nation's economic life. Stock exchange should no longer be satisfied merely by providing a market for the transactions of business in securities or by seeing that their rules and regulations are duly observed. It has to be more active and dynamic in its approach. It should take all possible steps to popularise direct share ownership by individuals and their entire rules and regulations set-up and practices should be oriented towards inspiring the public confidence in their machinery and administration.

It should set high standard of business conduct for business community and should always be ready and willing to learn and share experience with others in the country and abroad to improve the services to the investing community.

At present there is ample scope for diverting more funds to corporate enterprise. Mushroom growth of non-banking financial intermediaries in the State in recent years, is an indication that the investible funds with individuals have been increasing and most of these funds can be spread for term investment. The Bangalore stock exchange can play a pivotal role in diverting some of those funds with shares and securities of corporate enterprises by propagating the advantages of share holding.
It is true that mobilisation of personal savings for industrial investment is a slow process since it involves breaking of old habits and traditions which die-hard. It requires imaginative and coordinated efforts on the part of the stock exchange. Considerable educational and institutional publicity shall have to be taken up to impress upon the public the desirability of diverting a part of their savings into corporate enterprises. In this connection, Bangalore stock exchange should learn and share the experience of developed foreign stock exchanges and try to approach potential investors in a variety of ways. It should make an exclusive use of all communication media – including newspapers, magazines, radio and films – to explain the fundamentals of investment in corporate securities. These efforts should also be supplemented by exchange produced publications in regional language dealing with specific aspects of the investment process. The stock exchange should also organise lectures, courses in investments at schools, universities and libraries for community audiences. It should also provide a public gallery with attendants to explain the procedure for transacting the business at the trading ring. In brief, it should resort to all possible ways to acquaint masses with the salient features of corporate holdings as compared to other methods of investments.
3) **Brokerage and Listing Fees**

At present, adequate rules of trading exist at the Bangalore stock exchange. They simply need to be implemented to ensure smooth conduct of business. To improve upon the existing situation it may be suggested that the existing maximum scales of brokerage be replaced by minimum scales of brokerage.

Further, the present practice of linking annual listing fees to the paid-up share capital and/or debenture capital of the listed companies should be discontinued. Instead, it should be linked to the annual profits of the company. This suggestion is based on the principle of 'ability to pay'. A company enjoying higher profits will not 'grudge' paying higher listing fees and a company with declining profits will not feel the 'pinch' as it will be paying lesser annual listing fees.

4) **Advisory Body and State Participation**

To advise on controversial and important financial problems connected with the development, organisation and functioning of the stock market at Bangalore, an Advisory Body consisting of the State Government, R.B.I. and other financial institutions should be constituted. The stock exchange for the present stands in need of nursing besides legal protection from the state. This entails the need for grants and subsidies and State participation as a member of Advisory
Committee will enable the stock exchange to get required state support and guidance in matters of finance and working.

Along with the above suggestions, there are certain other aids essential to the development and organisation of the stock market. These aids include the simultaneous development of allied agencies such as underwriting institutions, investment and finance companies, etc., which may provide ready channels for the profitable investments to the funds available.

A sound stock exchange will help in laying down the lines for the development of sound money market in the State. The problem requires, proper enquiry and it is suggested that an "Expert Body" constituted by the Central Government in consultation with the State be set up immediately to go into the matter and make recommendations for the development of a sound stock exchange for the State.

b) The Bill Market:

Of the different specialised markets, the Bill Market is considered to be of special significance to a money market as it links the issue of money with trade activity, supplies banks with realisable assets and helps in making the bank rate effective. It is undoubtedly true that no well developed money market can exist without a developed bill market. It is universally recognised that the Central Bank is hampered in its operations, when an active bill
market does not exist. In fact, a bill market provides the Central bank of a country with ideal instruments of investment and helps it in carrying out open market operations and influence the cash reserves of the banks. Modern banks regard them as a safe line of defence, because, whenever they need funds, they run with a parcel of bills to the Central Bank and meet their obligations in time by rediscounting them. Further, the existing existence of a bill market helps in forging a link between the discount rates of the Central Bank and other rates in the money market making it comparatively easy for the Central bank to influence movement in the latter. It is for these reasons that the development of a bill market should precede rather than follow the organisation of a sound money market.

Briefly reviewing the services of the bill market to a money market it can be stated that an organised bill market provides liquidity to bank funds as the bills constitute the most fluid assets of the banks. It also provides elasticity to the money market and eases seasonal stringency, by adjusting the demand and supply position during such times. The provision of liquidity to the constituents and elasticity to the money market brings about automacy in the flow of funds. The bills which are accepted and discounted during busy seasons, help in expanding the money market and their maturity and self-liquidation soon after enable the money market to contract automatically.
To the investors, it provides a ready channel for their short-term investments. Ultimately, however, the scope and ability of this market depend upon various pre requisites, which are as under:

1) **Developed Agriculture and Industry:**

Developed agriculture and industry necessitate the development of short-term, quick-functioning investment facilities through which these may meet their short-term as well as medium-term requirements from time to time. It is through these instruments that the constituents provide them timely accommodation without mortgaging their own future.

ii) **Developed Banking Facilities:**

For the proper development of the bill market, it is essential that there should be a fair development of banking in the country. The existence of different kinds of banks, their linking and co-ordination through a net-work of branches and their psychological influence in promoting the banking habit are conducive to the development of a bill market in a country.

iii) **Existence of Acceptance and Discount Houses:**

These agencies serve as operators in the bill market together with the bill brokers, etc., and not only facilitate the discounting of bills but also provide Banker's Acceptance and thus keep the bill market continuous, active and regular.
iv) **Legal Facilities**

The bill market functions under a legal system, which incorporates provisions affecting its working, such as stamp duties on negotiable instruments, rules and regulations for their acceptance, payment, dishonour, etc., as well as provisions for control and guidance by the authorities. All these provisions require a proper mixing or rather the blending of various measures for the proper functioning of a bill market with no legal restrictions on genuine dealings, although the swindlers or those who deal in 'Kites' etc. should not be allowed to have a free play in the market.

v) **Constituents and Dealings in Bills**

It is upon the willingness and readiness of the constituents in general and the Central bank of the country in particular, that the creation of a bill market depends. If the banks prefer bills, patronise them and readily deal in them, the market for bills develops in no time. The provision of discount, acceptance and other facilities on the part of the banks and that of re-discounting on the part of the Central bank, greatly enhances the marketability and liquidity of bills and thus stimulates the expansion of the bill market.

vi) **Responsive System**

The more responsive and adaptable to local conditions, customs, usage and traditions the system is, the more expanded is the bill market.
is likely to be. It is because of these considerations that the businessmen and investors prefer bills to other media of borrowing and investment.

In fact, mutual confidence and regard for accommodation, the interest shown by the Central bank as well as the State in the growth, development and perfection of the bill market and the response of the public, all go a long way in developing this market.

It need not be emphasised that the backward nature of our economy, the illiteracy of our people, our underdeveloped banking structure and the absence of specialised agencies in our financial framework have queered the pitch. The efforts of the Reserve Bank of India in this direction have come to the fore only with the launching of the Bill Market Scheme.

On January 16, 1952, the Reserve Bank of India introduced the Bill Market Scheme after consultations with the bigger Scheduled Banks. It was intended as an experimental measure in the first instance but subsequently became a permanent feature of the Indian money market. The salient features of the scheme, as originally formulated by the Reserve Bank of India are:

1) The Reserve Bank of India undertook to make demand loans at its banking offices in India to Scheduled banks against their promissory notes, supported by the Usance Bills or Promissory notes of their constituents, maturing within 90 days.
ii) As an inducement to banks to popularise the bill as an instrument of credit, the Reserve Bank of India offered to make advances against bills at half per cent below the Bank Rate; i.e., at 3% per annum at that time.

iii) As a further incentive, the Bank agreed to bear half the cost of the stamp duty incurred in converting the demand bills into time bills.

iv) The minimum value of an individual bill tendered to the Bank was fixed at Rs. 1 lakh each, while the minimum limit for a single advance which a bank might take at any time was fixed at Rs. 25 lakhs.

v) The Scheme was provisionally restricted to banks whose deposits were not less than Rs. 10 crores on December 31, 1951.

On the representation of member banks and the experience gained during the first year, the Scheme was extended in June 1953 to licensed banks with deposits of Rs. 5 crores or more. This lowering of the deposit minimum naturally attracted more members to its fold. In July, 1954 the Reserve Bank on the recommendation of the Committee on Finance for Private Sector extended the Scheme to all Scheduled Banks in possession of a licence, irrespective of the size of their deposits and also reduced the minimum limit of a loan to Rs. 10 lakhs and the minimum amount of each individual bill to Rs. 50,000. The minimum limit of loan was further reduced from Rs. 10 lakhs to Rs. 5 lakhs with effect from February 22, 1957.
The year 1956 was a year of consolidation of the Scheme. In the context of the rising price trend since the middle of 1955, and the large expansion of Scheduled bank credit in the earlier period of the busy season of 1955-56, the Reserve Bank of India considered it no longer necessary to continue to allow the concessions granted under the Scheme. Consequently in March 1956, the Reserve Bank of India stepped up its lending rate under the Scheme by raising it to $\frac{3}{4}$%. The benefit of the reimbursement of a portion of the stamp duty was also withdrawn. Again, as the contraction in Scheduled bank credit was unusually small during the slack season of 1956 (mid-May to Sept-end) inspite of the above measures, the Reserve Bank increased its lending rate under the Scheme by another $\frac{1}{4}$% on November 21, 1956 bringing it at par with the Bank rate of $3\frac{3}{4}$% charged against the Government and other approved securities.

During the year 1957, the stamp duty on promissory notes with usance up to 3 months was revised on February 1, from two annas per thousand rupees on part thereof to one rupee four annas. Consequently, the effective cost of borrowing under the scheme was further raised by $\frac{1}{4}$%. With the raising of the bank rate on May 16, 1957 from $3\frac{3}{4}$% to 4% and the simultaneous lowering of the stamp duty on usance bills to one-fifth of 1% the effective borrowing rate under the scheme became $4\frac{1}{2}$%.
An important step taken by the Reserve Bank of India during 1958-59 was the extension of Bill Market Scheme to export bills on an experimental basis for one year with effect from October 1, 1958, with a view to enable the banks to extend credit facilities to exporters on a liberal scale. Scheduled banks which are eligible to borrow under the Scheme and which are authorised dealers in foreign exchange, can avail themselves of the facility. The minima for such advances to a bank at a time and for the amount of an individual usance bill have been fixed at Rs. 2 lakhs and Rs. 20,000 respectively at the same rates as applicable under the Bill Market Scheme, half the amount of the stamp duty being borne by the Reserve Bank of India.

These attempts to create a bill market in India did not achieve any considerable measure of success. The scheme was even considered by some as a "pseudo" bill market scheme. There was the criticism that the scheme was not based on genuine trade bills, but on the conversion of loans and advances of scheduled commercial banks into usance bills. The report of the Deheja Committee was an eye opener to the Reserve Bank. The report brought out the abuses of cash credit system and suggested the use of bill financing for the supervision of the end use of the funds lent by Commercial Banks.

**New Bills Discounting Scheme of the Reserve Bank of India:**

In February 1970, the Reserve Bank of India constituted a Study Group to go into the question of enlarging the use of bill of
exchange as an instrument of credit and the creation of a bill market in India. The group submitted its report in June 1970. It recommended that the Reserve Bank should take steps towards the creation of a bill market in India by encouraging the use of bill of exchange as an instrument of credit. According to the Study Group, the creation of a genuine bill market would impart flexibility to the money market even out liquidity within the banking system and enable the Reserve Bank to exercise more effective control over the money market.

The Reserve Bank accepted the main recommendations of the Study Group and in November 1970, introduced a new bills discounting scheme in terms of Section 17(2) of the Reserve Bank of India Act.

The main features of the scheme are:

1) all licensed scheduled commercial banks including the public sector banks will be eligible to offer bills of exchange to the Reserve Bank for rediscout;

2) the scheme covers only genuine trade bills which evidence sale of goods;

3) the bill should be drawn on and accepted by the purchaser's bank and where the latter is not a licensed scheduled bank the bill should, in addition, bear the signature of a licensed scheduled bank, the bill may also be drawn on the buyer and the buyer's bank jointly and accepted by them jointly,
the bill should normally be of a usance not exceeding 90 days and in exceptional cases it may have usance upto 120 days provided at the time of offering to the Reserve Bank for rediscount, the bill should have maturity not exceeding 90 days.;

the bill should bear at least two good signatures;

the scheme would exclude bills of exchange arising out of sales of such commodities as Reserve Bank may indicate from time to time;

the rediscounting facilities for the present would be made available at the Reserve Bank's offices at Bombay, Calcutta, Madras and New Delhi, and;

to avoid rediscounting of a number of small bills, such bills, should be given in bunches. The amount of a single bill offered for rediscount should not be less than Rs. 5,000 and the total value of bills offered at a time should not be less than Rs. 50,000.

The refinance facilities under the scheme are made available to banks throughout the year and bills rediscounted by banks with the Reserve Bank after June 30, 1971 will not impair the bank's entitlement to refinance at the bank rate irrespective of their net liquidity position.
The scheme was modified subsequently. In 1971, it was
extended to cover bills of exchange arising out of sale of goods
to Government departments and quasi-government bodies as well as
to statutory corporations and government companies provided such
bills conformed to the requirements of the scheme. Again, in order
to avoid delays and reduce the work involved in delivering and
re-delivering the rediscounted bills to and from the Reserve Bank,
it was decided to dispense with the actual lodgement of bills each
of the face value of Rs. 2 lakhs and below by the banker with the
Reserve Bank and to authorise the bank to hold such bills with
themselves as agent of the Reserve Bank. The minimum amount of a
bill eligible for rediscount with the Reserve Bank was reduced from
Rs. 5,000 to Rs. 1,000. Effective from April 1972, bills of exchange
drawn on and accepted by the Industrial Credit and Investment Corpor-
ation of India Limited on behalf of its purchaser constituents singly
or jointly with them, were also made eligible for rediscounting under
the scheme, provided an eligible scheduled commercial bank offered
them for rediscount. Further, with a view to widening the scope of
the new bills rediscounting scheme, the Bank has taken the opportunity
to suggest to banks in appropriate cases that book debt limits might
be converted into bills limits to the extent feasible. In addition,
the banks are also asked to avail of bills rediscounting facilities
on an increasing scale in respect of bills discounted by them.
Complaints against the Scheme:

Although the working of the scheme has been fairly encouraging, the shortcomings of the scheme are subjected to considerable criticism.

In the first place, the scheme has not yet achieved success in bringing the indigenous bankers and such other components of the unorganised sectors of the money market into its fold. But the lack of standardisation in the form of bills has a stumbling block in the way of extending the scheme to the unorganised sector.

Secondly, the scheme has mainly concentrated in the fields of industry, trade and commerce and there has been no attempt to take agriculture into its fold.

Developing a Genuine Bill Market in India:

What is the theory behind Bill Market? What is the innate superiority of bill financing over other methods of financing? These are the questions to which we have to address ourselves.

A vigorous and well spread-out market for bills, if developed, tends to obtain a high elasticity in the supply and distribution of loanable funds. Further, it also becomes an effective linkage between the stock of goods and credits, with an advantage of self-liquidation. This is the motive force behind the various institutional and incentive measures initiated by the R.B.I. for the development of a genuine bill market. But so far, these efforts have not been found fruitful in establishing a genuine bill market for the country.
In our country, the predominant part of loans by the commercial banks, takes the form of cash credits and overdrafts where the borrowing parties are assigned with the limits of drawals. The bulk of borrowing is by the industry and most of it is on the collateral of goods as security. Though the loans are technically renewables and hence recallables, in practice, they roll over year by year and also grow in size. The problem is how to switch over from the present practice of cash credits and overdrafts to trade bills?

Data available regarding trends in company finances bear out that existing lending practices and in the context of low interest rates, have led to a phenomenal increase in the inventory holding financed by bank borrowing. Further, there is a feeling that bank lending to a firm for short-term purposes is, in practice, transformed into finance for investments in fixed capital and the borrowers who have access to banks are liable to enlarge their share of command over scarce resources.

The development of a real market is very important for healthy feature of our credit system. This can be done, by dividing the economy's potential users of working capital into:

a) Industrial users - who need short-term finance for production - inputs and current payments;

b) Agriculture users - who require finance for the above purpose only, and;

c) Trading users - who require finance for the activities involved in movement of goods.

Suppose we construct a model in which industrial users get credit from traders and agriculture users also get credit from traders - traders mutually get and take credit from among themselves we can reduce the problem of working capital finance into one of the (a) traders and banks, (b) traders and industry, and (c) traders and agricultural producers. Banks discount bills presented by the traders and/or their agents and/or financial houses. They extend credit both to industry and agriculture but themselves obtain credit from indigenous bankers, financial houses and other unorganised institutions.

In this model, the crucial link is between those who have surplus cash available for lending for short-term purposes and traders or their agents. The trading sector only, has got the dominant access directly or indirectly to the banks which, of course, can get their bills rediscounted at the R.B.I's window or at the authorised agents of the R.B.I.
As the volume of the bills bears a relation to the stocks of finished goods and/or goods-in-process, there will be a link between the production and credit. As discounting rates at the hands of commercial banks and rediscounting rates at the hands of R.B.I. will be sufficiently penal in nature, the parties will go to the banking system only after all other sources of finance have been exhausted. Then the level of bank rate will have to be highest of all the short-term rates.

A consequence of such a bill market is the re-introduction of automatic fixation of loans. Such a market is effective only if the discount rate is higher than the other short-term rates, and there is no excess liquidity in the economy. All the borrowings by the Government are to be met through the commercial banks only. Then the R.B.I. obtains sufficient manoeuvrability to regulate the scheme and timing of expansion of high powered money. This would help the authorities in the regulation of the flow of autonomous liquidity in the economy.

For this purpose, monetary authorities have to establish a number of regional and metropolitan Acceptance Houses and Discount Houses and the initial outlay for the promotion of such houses should be borne by them.
What is further required is, a phased reduction of bank lending to industry and R.B.I's lending to banks and co-operatives. In the process, the bank rate will displace the other techniques of credit control. Speculative forces can be checked or regulated with a given buffer stock of agriculture and wage goods through bank rate variations. Traders' stocks are highly sensitive to interest rate variations provided the interest rate is appropriate and the bulk of trade is financed by bills.

In our country, we notice that around 1970 gross trade credit was equal to the whole borrowings of the corporate sector covered by the R.B.I. study of public limited companies. In fact, the corporate sector has been increasingly resorting to trade credit. Such trade credit, inherent in a system of monopoly houses, also provides the possibility of a large outlet for bills. Here the suggestion is that, the R.B.I. should take up the responsibility of developing all over the country a work of bill financiers. For this purpose, R.B.I. should draw-up a list of professional money-lenders, indigenous bill brokers, trading agents dealing in bills, foremen of chitfunds and indigenous shroffs and bankers. If necessary, a new cadre of professional bill financiers can be developed with suitable training facilities. National Bills Development Corporation with State branches is to be established with appropriate pre-planning. The R.B.I. should also

13. Ibid. p. 219
help in the initial stage with a contribution of some funds. When such a corporation is established, the R.B.I. should instruct the commercial banks to increasingly reduce the lending commitments to industry. In fact, the R.B.I. can unburden itself of existing pattern of quotas for re-lending based on the holding of Government securities. The chief instrument of banking policy then would become the bank rate which will be the rate for re-discounting of bills from banks.

There are a number of advantages in the above scheme. In the first place, the existing link between the finance and industry will be broken and incidental differential advantages obtained by big industries will be done away with. In the second place, a new outlet for large pools of funds laying in the "parallel monetary system" will be attracted by the new corporation. At the same time, a large and rising quantum of flow of funds to the parallel money market will be stopped. In the third place, the advantage is that monetary and credit policy will be more effective and its coverage will expand. Besides, the authorities will gain freedom in regard to short-term interest rates and making bank rate a more powerful one. Lastly, with the gradual all round levering-up of interest rates there tend to be a greater scope for the flow of deposits. The rate of savings to national income channelised through the banking system will go up.