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RECENT DEVELOPMENT IN INDIAN CAPITAL MARKET

Shaik Mohammad Imran[1], A Nadia[2], N.Saradamma[3], M.Ambika[4]

[1]*Asst.Prof, Department of Management Studies, Gates Institute of Technology, Gooty*
[2,3,4] *PG Student of Gates Institute of Technology Gooty*

ABSTRACT

A *capital market is a financial market in which long-term debt or equity-backed securities are bought and sold. Capital markets are defined as markets in which money is provided for periods longer than a year. Capital markets channel the wealth of savers to those who can put it to long-term productive use, such as companies/ governments making long-term investments. Financial regulators, such as the UK's Bank of England (BoE) or the U.S. Securities and Exchange Commission (SEC), oversee the capital markets in their jurisdictions to protect investors against fraud, among other duties.*

This paper discuss about the reforms of capital market in India and what is recent development in capital market

Keywords: Financial Market, Long-term debt, Domestic Institutional Investors, High net worth Individuals, Fiis.

I. INTRODUCTION

A **capital market** is a financial market in which long-term debt or equity-backed securities are bought and sold. Capital markets are defined as markets in which money is provided for periods longer than a year. Capital markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments. Financial regulators, such as the Bank of England (BoE) or the U.S. Securities and Exchange Commission (SEC), oversee the capital markets in their jurisdictions to protect investors against fraud, among other duties.

Modern capital markets are almost invariably hosted on computer-based electronic trading systems; most can be accessed only by entities within the financial sector or the treasury departments of governments and corporations, but some can be accessed directly by the public.[b] There are many thousands of such systems, most serving only small parts of the overall capital markets. Entities hosting the systems include stock exchanges, investment banks, and government departments. Physically the systems are hosted all over the world, though they tend to be concentrated in financial centres like London, New York, and Hong Kong.

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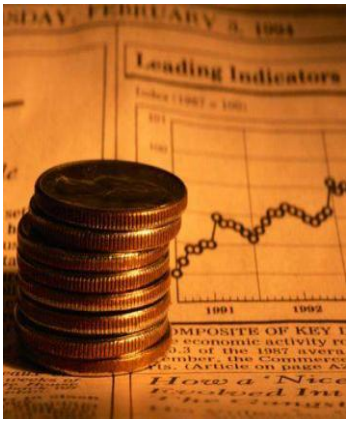
A capital market can be either a primary market or a secondary market. In primary markets, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local or national) and business enterprises (companies). Governments issue only bonds, whereas companies often issue either equity or bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary markets, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises.

A second important division falls between the stock markets (for equity securities, also known as shares, where investors acquire ownership of companies) and the bond markets (where investors become creditors).

The Indian capital market has witnessed major reforms in the decade of 1990s and thereafter. It is on the verge of the growth.

Thus, the Government of India and SEBI has taken a number of measures in order to improve the working of the Indian stock exchanges and to make it more progressive and vibrant.



Reforms in Capital Market of India

The **major** reforms undertaken in capital market of India includes:-

II. ESTABLISHMENT OF SEBI

The Securities and Exchange Board of India (SEBI) was established in 1988. It got a legal status in 1992. SEBI was primarily set up to regulate the activities of the merchant banks, to control the operations of mutual funds, to work as a promoter of the stock exchange activities and to act as a regulatory authority of new issue activities of companies. The SEBI was set up with the fundamental objective, "*to protect the interest of investors in securities market and for matters connected therewith or incidental thereto.*"

The main functions of SEBI are:-

i. To regulate the business of the stock market and other securities market.

ii. To promote and regulate the self-regulatory organizations.

iii. To prohibit fraudulent and unfair trade practices in securities market.

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iv. To promote awareness among investors and training of intermediaries about safety of market.

v. To prohibit insider trading in securities market.

vi. To regulate huge acquisition of shares and takeover of companies.

SEBI BHAVAN, MUMBAI

. Establishment of Creditors Rating Agencies

Three creditors rating agencies viz. The Credit Rating Information Services of India Limited (CRISIL - 1988), the Investment Information and Credit Rating Agency of India Limited (ICRA - 1991) and Credit Analysis and Research Limited (CARE) were set up in order to assess the financial health of different financial institutions and agencies related to the stock market activities. It is a guide for the investors also in evaluating the risk of their investments.

III. INCREASING OF MERCHANT BANKING ACTIVITIES

Many Indian and foreigncommercial banks have set up their merchant banking divisions in the last few years. These divisions provide financial services such as underwriting facilities, issue organising, consultancy services, etc. It has proved as a helping hand to factors related to the capital market.

IV. CANDID PERFORMANCE OF INDIAN ECONOMY

In the last few years, Indian economy is growing at a good speed. It has attracted a huge inflow of Foreign Institutional Investments (FII). The massive entry of FIIs in the Indian capital market has given good appreciation for the Indian investors in recent times. Similarly many new companies are emerging on the horizon of the Indian capital market to raise capital for their expansions.

V. RISING ELECTRONIC TRANSACTIONS

Due to technological development in the last few years. The physical transaction with more paper work is reduced. Now paperless transactions are increasing at a rapid rate. It saves money, time and energy of investors. Thus it has made investing safer and hassle free encouraging more people to join the capital market.

VI. GROWING MUTUAL FUND INDUSTRY

The growing of mutual funds in India has certainly helped the capital market to grow. Public sector banks, foreign banks, financial institutions and joint mutual funds between the Indian and foreign firms have launched many new funds. A big diversification in terms of schemes, maturity, etc. has taken place in mutual funds in India. It has given a wide choice for the common investors to enter the capital market.

VII. GROWING STOCK EXCHANGES

The numbers of various Stock Exchanges in India are increasing. Initially the **BSE** was the main exchange, but now after the setting up of the **NSE** and the **OTCEI**, stock exchanges have spread across the country. Recently a new Inter-connected Stock Exchange of India has joined the existing stock exchanges.

VIII. INVESTOR'S PROTECTION

Under the purview of the SEBI the Central Government of India has set up the Investors Education and Protection Fund (IEPF) in 2001. It works in educating and guiding investors. It tries to protect the interest of the small investors from frauds and malpractices in the capital market.

IX. GROWTH OF DERIVATIVE TRANSACTIONS

Since June 2000, the NSE has introduced the derivatives trading in the equities. In November 2001 it also introduced the future and options transactions. These innovative products have given variety for the investment leading to the expansion of the capital market.

X. INSURANCE SECTOR REFORMS

Indian insurance sector has also witnessed massive reforms in last few years. The Insurance Regulatory and Development Authority (IRDA) was set up in 2000. It paved the entry of the private insurance firms in India. As many insurance companies invest their money in the capital market, it has expanded.

XI. COMMODITY TRADING

Along with the trading of ordinary securities, the trading in commodities is also recently encouraged. The Multi Commodity Exchange (MCX) is set up. The volume of such transactions is growing at a splendid rate.

Apart from these reforms the setting up of Clearing Corporation of India Limited (CCIL), Venture Funds, etc., have resulted into the tremendous growth of Indian capital market.

SEBI vide its press release PR No.59/2010 dated March 6, 2010 has announced the decisions of the board meeting of SEBI held on the same day. The following is an analysis of the above said decisions.

PRIMARY MARKET REFORMS

- The eligibility criteria for issuers were strengthened in 1996-97. At the same time, SEBI took several measures to provide issuers with more flexibility in the issue process. As part of this effort, stringent and detailed disclosure norms were prescribed, greater transparency in the draft prospectus required, and separate criteria for finance companies prescribed.

- Criteria for accessing the securities markets were strengthened. Issuers proposing to make the first offer to the public of equity, or any security convertible at a later date into equity, are now required to have a track record of dividend payment in three of the immediately preceding five years. Issuers not meeting this requirement can get their securities listed, provided their project is appraised by a financial institution or scheduled commercial bank, and the appraising institution contributes at least 10 per cent of the project cost. This requirement was also imposed in the case of issues by listed companies where the post-issue equity capital exceeds five times the equity capital prior to the issue.
- In view of the circumstances in which public sector banks operated in the past, they have been permitted to comply with less stringent criteria. The entry criteria required for other issuers would not apply to public sector banks. Further, public sector banks have been allowed to price issues at a premium provided they have a two year profitability record, as against the three year requirement for other issuers.
- SEBI announced several measures aimed at providing greater flexibility to the issuers. Offer documents would no longer be vetted by the SEBI. Merchant bankers and issuers would remain responsible for ensuring compliance with the norms on disclosure and investment protection prescribed by the SEBI. A number of steps were taken to encourage the development of a debt market. Debt issues not accompanied by an equity component, can be sold entirely by the book-building process, subject to Section 19 (2) (b) of the Securities Contracts (Regulation) Rules. The requirement of 90 per cent minimum subscription in case of offers for sale has been done away with for exclusive debt issues, subject to certain disclosures and exemptions under the Companies Act. Issuers have been allowed to list debt securities on stock exchanges, even if their equity is not listed. Book-building has been allowed for equity issues of less than Rs.100 crore, subject to compliance with the SC(R) Rules. For all companies in whose issue the promoters' contribution exceeds Rs.100 crore, promoters have been allowed to bring in their contribution in a phased manner, irrespective of their track record. Corporate advertisements between the date of issue of acknowledgement card and the date of closure of the issue, have been allowed, subject to specific conditions which include the disclosure of risk factors. To ensure that public issues were widely subscribed to and held new norms of shareholding were prescribed.

PRIMARY MARKET DEVELOPMENTS

- The downtrend in primary markets seen in 1995-96 continued in 1996-97. Capital raised through new issues during April-December 1996 was down to Rs.10,369.21crore from Rs.14,151.1 crore during April-December 1995. Over the same months, the number of issues fell correspondingly from 1,132 in 1995 to 793 in 1996, but the average size of the issue rose marginally from Rs. 12.50 crore to Rs.13.07 crore. The mix of public and rights issues also changed, with the proportion of the former rising to 83 per cent of the total. Public issues fell by only 11 per cent from Rs.9,694.48 to Rs.8,619.37 crore. The average size of public issues rose from Rs.10.50 crore to Rs.12.66 crore. Rights issues, on the other hand, fell to Rs.1,749.84crore, less than 40 per cent of the amount raised in April-December 1995 (Table 4.1). Their average size also declined to Rs.15.62 crore from Rs. 21.32 crore. One hypothesis consistent with these facts, is that it was easier to raise funds for new goods and services, than for the existing menu of products produced by older companies.

- The declining trend in issues and funds raised through the primary market is expected to continue through the rest of 1996-97, since the number of the offer documents received by the SEBI in the first half of 1996-97 is significantly lower than offer documents received in the first half of 1995-96. The general downtrend in the secondary market and the stricter eligibility criteria introduced by SEBI are among the reasons behind this downtrend in the primary market issuance.

SECONDARY MARKET REFORMS

SEBI took several initiatives to further develop secondary markets. The Depositories Act, 1996 was enacted in July, 1996. SEBI (Depositories and Participants) Regulations, 1996 were notified. They are the foundation of an institutional framework for minimising the problems associated with physical handling of securities. They provide a legal framework to record ownership details in a book-entry form. Other secondary market reforms were aimed at improving the transparency and integrity of markets and market infrastructure, and introducing uniform and streamlined market practices. A synoptic view of these reforms is presented in Box 4.2.

- Custodians of securities existing for a considerable period and engaged in providing services to a number of institutional investors can reach the required minimum net worth of Rs.50 crore in a phased manner over a period of 5 years.
- Custodians required by SEBI to appoint a Compliance Officer who will interact with the SEBI regarding compliance and reporting issues.
- SEBI will have monthly meetings with the Association of Custodial Agencies of India (ACAI) before incorporating any changes that have an impact on settlement of transactions of institutional investors.
- Stock exchanges asked to modify the listing agreement to provide for payment of interest by companies to investors from the 30th day after the closure of a public issue.
- Uniform good-bad delivery norms and procedure for time bound resolution of bad deliveries through Bad Delivery Cells prescribed. Bad Delivery Cell procedure have helped to standardise norms.
- All exchanges to institute the buy-in or auction procedure being followed by the National Stock Exchange.
- In view of the falling percentage of deliveries, exchanges asked to collect 100 per cent daily margins on the notional loss of a broker for every scrip, to restrict gross traded value to 33.33 times the brokers base minimum capital and to impose quarterly margins on the basis of concentration ratios.
- Study group constituted to make recommendations for imparting greater transparency and fairness in bulk or negotiated deals.
- Stock exchanges asked to set up a clearing house or clearing corporation.
- Stock exchanges disallowed from renewing contracts in cash group of shares from one settlement to another.
- A core group for inter-exchange market surveillance set up for coordinating action in case of abnormal volatility.
- The Stock Exchange, Mumbai and other exchanges with screen based trading systems allowed to expand their trading terminals to locations where no stock exchange exists, and to others subject to an understanding with the local stock exchange. The setting up of trade guarantee scheme or clearing corporation, mechanisms for handling investor grievances arising from other centres and adequate monitoring mechanisms will be a prerequisite.

- Several restrictions, including limits on the size of issues proposed to be listed on OTCEI removed, and listing criteria for OTCEI, relaxed. Besides, OTCEI permitted to move to a five day accounting period settlement.
- Both, short and long sales will have to be disclosed to the exchange at the end of each day. They would be regulated through the imposition of margins.
- A stock lending scheme has been introduced. Stock lending has been approved in which short sellers could borrow securities through an intermediary before making such sales. The approved intermediary should have a minimum net worth of Rs.50 crore

Regulation of Investment Advisors

This is also an important step, and brings within the scope of regulation an important constituency in the stock markets that was hitherto outside the purview of regulatory supervision. As Sandeep Parekh notes in this Financial Express column:

With this regulation, the entire industry, which is involved in distribution of securities products and even financial products, is sought to be covered. Therefore, anyone peddling a security to an investor would be covered by the regulation and any wrong advice and misconduct would attract scrutiny and punishment by Sebi. Until today, Sebi was sceptical about introducing these regulations because just the number of distributors would run into hundreds of thousands and regulating such a large number would be outside the available manpower and bandwidth of Sebi. Many of the ills of the financial industry actually have their origin in distributors and advisors, some of whom are unscrupulous and would sell the worst product for a given investor merely because they get a higher commission from selling that product.

Debt Market Reforms

The corporate bond market has been in a continuous stage of evolution for the last few years. While substantial regulatory efforts have been made to enhance the market for corporate bonds, those have been incremental in nature and have not resulted in great success. This trend of facilitating the debt securities market continues in the present phase of reforms as well. Some of the reforms include standardization of format for presenting information (particularly the financials), and also the provision of an enabling facility for shelf placement document in case of frequent issues through private placement.

The trend in the corporate bond market is that despite these regulatory developments, there is an emphasis on private placements rather than public offerings. While some of these efforts such as standardization may help address some of the concerns of the market, there are other key impediments, as some of us have observed elsewhere, such as the lack of a robust corporate insolvency framework that may inhibit vibrant corporate debt markets in India.

In the end analysis, this round of decisions taken by SEBI can be considered to be a positive development, given the slow pace of overall economic reforms lately in India.

XII. CONCLUSION

Based on this paper Indian Capital Market is already in the growth face. A clear policy decision from government, vigilant eye from the regulators, transparency from the stock exchanges & prudent action by the

brokers & financiers is the requirement of the day to maintain the growth rate on the Securities Market. A strong capital market provides the foundation for a developed economy.

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