Vol. 4 No. 1 December 2015 ISSN: 2319-961X

RECENT TRENDS IN CAPITAL MARKETS

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Abstract

The capital market is more than a century old. Its history goes back to 1875, when 22 brokers formed the Bombay Stock Exchange (BSE). Over the period, the Indian securities market has evolved continuously to become one of the most dynamic, modern, and efficient securities markets in Asia. Today, capital market confirms to best international practices and standards both in terms of structure and in terms of operating efficiency. Indian securities markets are mainly governed by a) The Company's Act 1956, b) the Securities Contracts (Regulation) Act 1956 (SCRA Act), and c) the Securities and Exchange Board of India (SEBI) Act, 1992.

Keywords*: capital market, Bombay Stock Exchange, Securities and Exchange Board of India, FERA, Seventh Five Year Plan, SHCIL*

Introduction

A new era in capital market in India was ushered in July, 1991, with starting of a process of financial and economic deregulation. Beginning with the devaluation of rupee by about 20% in July 1991, industrial policy was totally reshaped to dispense with licensing of all industries except the 18 scheduled industrial groups. Further, removal of MRTP limit on assets of companies, dilution of FERA and foreign trade liberalization etc., were some of the other reforms.

Genesis of New Order

The beginning of liberalized policies dates back to 1985 when the Seventh Five Year Plan was started. The banking companies Amendment Act of 1983 gave new avenues of activities to banks in the form of participation in non-funded activities and financial services such as leasing, hire purchase, merchant banking, etc. The public sector banks have started setting up subsidiaries for merchant banking, lease financing, mutual fund etc., since that time. After 1992 even private sector is allowed to enter into these financial services, including banking, mutual funds, etc.

The SEBI was set up in April 1988 to oversee and control the capital market and it has been given legal powers since April 1992 by an act. A number of new institutions like CRISIL for credit rating and SHCIL for clearance and share depository services have been set up.

National Stock Exchange

Following the Pherwani committee recommendations, the Government initiated steps for NMS and recognized the NSE in 1993 for setting of National market system, in which the electronic trading, and settlement is possible through bout the country on the basis of the standard prices and a fixed margin of service charges or commission for the brokers. NSE was the 23rd stock exchange to be recognized under SC(R) Act.

With increasing regulation by SEBI on exchanges by the future role of exchanges will be radically different from the present, as there developmental role will be increasing must faster than their regulatory role. Not only the stock exchange but all the players of the market, namely, companies, brokers, intermediaries and investor have come under the supervision and control of SEBI. Along with increasing self regulation and a stricter enforcement of a code of conduct on the members, the Stock Exchanges will have to emerge as Public Service Institutions catering to increasing demands of investors in the country. Listed companies have also a role in this process to collaborate and extend all help for more efficient functioning of Exchanges. To improve the quality and efficiency of service, trained and professional category of intermediaries and brokers is also necessary. Education, training and research would be the hallmark of future Stock Brokers and other intermediaries, in the markets.

National Market System

The Pherwani Committee recommended the setting up of the national market system based or the new Stock Exchange which was already set up in Mumbai. To make the national market system effective, the committee recommended several support agencies to provide high quality trading settlement and depository services. In this context, it has recommended that there should be three tiers, namely, Stock Exchanges at Mumbai, Kolkata etc., regional Stock Exchanges like those in major State Capitals and additional trading floors sponsored or managed by Principal or Regional Stock Exchanges.

The structure of Securities markets was on the following lines

1. Regular Stock Markets which are 21 in number at present.
2. National Market System with a separate set of licensed brokers all over the country mostly banks and corporate units, attached to NSE.
3. Retail broking through a series of registered sub brokers attached to the regular stock markets or to NMS.
4. Additional trading floors licensed for trading in securities on the basis of regional stock exchange quotation.

Need for Larger Financial Base

Although Pherwani Committee on stock market informs recommended the opening of four more stock exchange in addition to the exiting 21 exchange, the trading floors recognized by SEBI can operate in those places linked to a main-regional exchange. Because, the stock exchange in the future cannot function without better infrastructure, computerization, etc, this recommendation is not implemented. But in September 1996, Visakhapatnam Stock Exchange is recognized for electronic trading. For brokers also, capital adequacy norms have been laid down by the SEBI but not yet implemented.

SEBI Reforms of the Secondary Markets

As soon as the SEBI Act was passed in April 1992, the SEBI has swung into action for regulating the intermediaries in the stock market. Before the legal powders were given to the SEBI, it had already started regulating the merchant bankers and mutual funds by registering and licensing them and later through a code of conduct to be observed by them. With the legal powders bestowed on it, later on it had asked all the exiting stockbrokers and sub-brokers of exchange to register with the SEBI. Despite initial opposition, this task of registration was completed in 1992 only.

Conclusion

On the basis of the exercise undertaken by us, we consider it obligatory to make some brief comments on the state of capital market research in India. Certain areas such as arbitrage pricing theory, option pricing theory, agency theory, and signalling theory are virtually unresearched in the Indian context. Besides, very little theoretical work has been done by researchers in India. A major malady with which most of the works suffer from is the lack of referencing. Unlike in the more developed research environments where any academic work can be traced back to the origin by following the references backward in time, each piece of research in India is more or less a standalone piece. It is not unusual to come across papers without any references whatsoever! Where references exist, they are often incomplete, besides being only cosmetic (not quite relevant to the work), so that it may be virtually impossible to find a common thread across different works. The situation is hardly helped by the fact that journals in India are seldom refereed in the true sense of the word.

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