CAPITAL MARKET REFORMS IN INDIA

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Abstract: The Capital market plays a very important role in promoting economic growth through the mobilization of long-term savings and savings get invested in the economy for productive purpose. Due to the swiftness of economic reforms followed in India, the role of capital market has grown during last decade or so. The significant transformation of the capital market in India is clearly evident from the changes that have occurred in the stock market. The developments have facilated greater choice for investors, who have become more discerning and demanding. The capital market reforms were initiated in 1991, as part of the structural reforms comprising industrial deregulation, privatization, globalization, and financial reforms through liberalization of domestic economic and foreign exchange policies. In the present study an attempt has been made to highlight the various reforms in capital market in India since 1991. It also shows the impact of capital market reforms in Indian economy.

Key words: Capital market, Reforms, Regulatory, Exchange etc.

1) Introduction

Capital market refers to the market for long-term funds for investment purposes. The capital market is the source of funds for corporate, governments and provides opportunities to savers to park their long-term savings. The capital market comprises of two segments- the primary and secondary markets. Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade. Indian capital market is exposed to tremendous reforms in the last decade. The reforms are triggered by changes in policy by union government and the same is accepted and stimulated by introduction of new financial products by stock exchanges, better legal frame work by the regulator and active participation by depository participants, share brokers, domestic as well as foreign investors. A well developed financial system is the backbone of any developed as well as fast developing economies. Capital market provides the financial backbone for business entities. Indian capital market has undergone tremendous changes after the establishment of Securities and Exchange Board of India (SEBI) in 1992. A number of measures are taken by SEBI, Ministry of Finance, RBI and other regulators to make Indian stock market a dependable platform for Foreign Institutional Investor (FIIs), Domestic Institutional Investors (DIS), High Net worth Individuals (HNIS) and Detail Investors. Introduction of new products also helped in inviting potential investors (foreign as well as domestic) to Indian Capital market.

2) Objectives:

The present study undertakes the following objectives:

- To study the capital market reforms in India since 1991.
- To study the impact of capital market reforms in India.

3) Methodology:

Research methodology can be defined as a way to systematically solve the research problem by logically adopting various steps. The present study is descriptive in nature. The study uses secondary data, which are collected from Union Budgets, Government of India, SEBI website, CMIE database and from various journals, magazine etc.

4) Analysis and Discussion:

REFORMS IN THE INDIAN CAPITAL MARKET

The capital market in India has seen a large number of changes over the last few years, particularly after 1991 and SEBI continues to move towards more efficient market. All the measures introduced since July 1991 aims to improve the productivity and efficiency of the system. SEBI as well as other agencies looks for professional standards, functional strength backed by corporate right, ethical bahaviour and a comprehensive and total approach to business from the part of stock brokers. All these measures will ultimately make Indian industry competitive in the international market.

Establishment of SEBI: - The Securities and Exchange board of India (SEBI) was set up in 1988 and was legalized in 1992. The primary function of SEBI has regulated the activities of the merchant banks, to control the operations of mutual funds, to work as a promoter of 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 the securities market and for matters connected therewith or incidental there to".

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.

Increasing of Merchant Banking Activities: - Many Indian and Foreign commercial banks have set up their Merchant Banking divisions in the last few years. These divisions provide financial services such as underwriting facilities, issue organizing, consultancy services, etc. It has proved as a helping hand to factors related to the capital market.

Candid Performance of Indian Economy: - In the last few years, Indian Economy is growing at a good. 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 experience.

Rising Electronic Transactions: - Due to technological development in the last few years, the physical transaction with more paperwork 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.

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 and 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.

Growing Stock Exchanges: - The Number of various Stock Exchanges in India is increasing. Initially the BSE was the main Exchange, but now after the setting up of the NSE and the OTCE, stock exchanges have spread across the country. Recently a new inter-connected Stock Exchange of India has joined the existing stock exchanges.

Establishment of clearing house:- The establishment of National Securities clearing house Corporation (NSCC) in July 1996 helped in eliminating the issue of counter parity risk. NSSC performs 'novation' i.e., it is the legal counterparty to the net settlement obligation. In traditional exchanges brokerage firms were bound by family and ethnic ties. These ties were exploited in reacting to crises. But when NSE admits brokerage firms without any ethnic or family ties, NSE was Exposing itself to greater chances of counter party risk. The solution to the problem thus lead to the birth of NSSC.NSSC prevents the externalities associated with defaults.

A combination of online real time task monitoring and initial margin and the daily mark to market margin is used as the risk containing system by NSCC. NSCC has successfully navigated the markets during periods of high volatility. Though it is criticized for being overly conservative in margin calculations, it has produced an unprecedented reliability in the stock market operations.

Depository Services: - The Depository act of 1996 removed the problems arising from physical share certificates. The transfer of physical shares involved huge transaction cost, delays, reduced liquidity, etc. The Act established Depositors i.e. institutions that dematerialize shares. These institutions convert the shares into electronic form. Examples are NSDL and CDSL.

Rolling Settlement: - T +N Rolling settlement was introduced in the stock exchange. T= Trading day, N= Number of days after the trading days. All shares were compulsory moved to rolling settlement from December 2001. All exchanges were moved to the same settlement days. T+ 5, T+3 and T+2 were the settlements adopted. T+ 1 mode was introduced in 2004.

Investor's Protection: - Under the preview of the SEBI the central government of India has setup 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 mal practices in the capital market. SEBI has contributed a sum of RS. 10 crore towards the initial corpus of the IEPF from the SEBI General Fund.

Growth of Derivative: - 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.

Insurance Sector Reforms: - Indian Insurance sector has also witnessed massive reforms in the last few years. The Insurance regulatory and development Authority (IRDA) was setup 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.

Commodity Trading: - Along with the trading of ordinary securities, the trading in commodities is also recently encouraged. The Multi Commodity Exchange (MCX) is setup. 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 wide its press release PR NO 59/2010 dated March 6, 2010 has announced the decisions often board meeting of SEBI held on the same day.

Securities Contracts (Regulation) Amendment Act, 2007:- The Securities Contracts Regulation Act, 1956 has been amended to include securitization instruments under the definition of "securities" and provide disclosure based regulation for issue of the securitized for issue of the securitized instruments and the procedure thereof. This has been done keeping in view that there is considerable potential in the securities market for the certificates or instruments under securitization transactions. The development of the securitized debt market is critical for melting the humungous requirements of the infrastructure sector, particularly housing sector, in the country. Republication of the securities market framework for these instruments would facilitate trading on stock exchange and in turn help development of the market in terms of depth and liquidity.

IPO Grading:- SEBI has made it compulsory for companies coming out with IPOs of equity shares to get their IPOs graded by at least one credit rating agency registered with SEBI from May 1, 2007. This measure is intended to provide the investor with an informed and objective opinion expressed by a professional rating agency after analyzing factors like business and financial prospects, management quality and corporate governance practices etc.

Migration of Mutual Funds from commission based system to free based system: - SEBI has stipulated that since august 2009 no entry load shall be there for any mutual fund scheme and the upfront commission to distributors will be paid by the investor directly based on his assessment of various factors including the services, rendered by the distributor. In order to have parity among all classes of unit holders, SEBI has mandated that no distinction among unit holders should be made based on the amount of subscription while charging exit loads of the exit load charged to the investor, a maximum of one percent of the redemption proceeds shall be maintained in a separate account which can be used by the assent management company to pay commissions to the distributor and to take care of other marketing and selling expense. Any balance needs to be credited to the scheme immediately. These measures are meant to protect the interests of the investor.

Financial Action Task Force (FATF):- India becomes the 34^{th} country to join the financial Action Task Force (FATF) as its full fledged member. Action Task Force (FATF) is an inter government body, responsible for setting global standards on anti money laundering (AML) and combating the financing of terrorism (CFT). India become observer at FATF in the year 2006. Since then, India has been working towards full fledged membership of FATF.

Buy Today Sell Tomorrow (BTST) :- BTST is a facility provided by the stock broker with permission of exchange. T+ 2 is the settlement cycle followed in India, i.e., if you buy a stock today then the stock will be credited to your demat account after 2 days. BTST provide the option to sell the stock before the stock is credited to the investors account/ if any default happens in crediting the stock then the broker buys the stock through auction which makes the product riskier.

Margin Trading: - Margin is day trading without actual possession of stock. The trader can make a buy /sell order in the morning and square off the transaction in the evening before the end of the trading day. The traded will gain /loose based on the price fluctuations of that particular stock on that trading day. The trader needs to block only 20-25% of the value of the stock for availing this facility.

Currency Derivatives: - Currency futures is a transferable futures contract that specifies the price at which a currency can be bought or sold at a future date. Currency future contracts allow investors to hedge against foreign exchange risk. It is introduced in India in 2008.

Interest Rate Futures: - Interest rate futures are also introduced in the Indian capital market to exploit the opportunities of interest rate fluctuations.

Wholes all Debt Market (WDM):- The recession and sub-prime crisis of 2008 gave a good momentum to the debt market. Since the indices were not supporting for IPO, many corporate having potential profitable projects raised debt capital from the market in the form of debentures and public deposits. Debt mutual funds also gained importance during that period.

Strengthening the role of regulator under the SEBI Act: - SEBI has reformed the role of regulator, under consideration during 2014, till then, designated depository participants authorized by SEBI, may register different classes of portfolio investors, subject to compliance with KYC guidelines. SEBI has simplified the procedures and prescribe uniform registration and other norms for entry for foreign portfolio investors. FIIs are now permitted to participate in the exchange traded currency derivative segment to the extent of their Indian rupee exposure in India. FIIs are also permitted to use their investment in corporate bonds and government securities as collateral to meet their margin requirements. SEBI prescribed requirement for angel investor pools by which they can be recognized as category AIF venture capital funds. Small and medium enterprises, are permitted to list on the SME exchange without being required to make an initial public offer (IPO). Stock exchanges are allowed to introduced a dedicated debt segment on the exchange.

Introduction of Uniform KYC (know your customer) norms:- Government in 2014-15, introduced uniform KYC norms with inter usability of the KYC records across the entire financial sectors and a single demat account so that consumer can access and transact all financial assets through this one account.

Enabling Asset Reconstruction Companies (ARCs) to ensure wide shareholding:- The ARCs under SARFEST Act 2002 enabled to sponsor of an ARC to hold up to 100 percent stake in the ARC and permit non institutional investors to invest in securitization receipts. However, ARCs were unable to get the requisite capital to fund its skin in the game, be it minimum 15 percent contribution or the 100 percent asset purchase.

FUTURE REFORMS

The future of Indian Capital Market is expected to have a steady and long -term growth potential. A few reforms are also in the pipeline under the consideration of the new government. The rules regarding External Commercial Borrowings (ECBs) are expected to be liberalized. Now there in confusion regarding the taxation rules on the income earned abroad by an Indian MNC and industry is expecting a clear favorable policy decision regarding this and outward remittance limit is also expected to be increased mobile trading and internet based trading is excepted to increases in the coming years. The Low Transaction cost and technology is expected to play a major role in the coming years.

IMPLICATIONS OF CAPITAL MARKET REFORM IN INDIA & CONCLUSION-

Reforms in the capital market have had a multi-dimensional impact in the economy. The significance of capital market has improved in providing a mechanism for allocation of resources as is reflected is increase is its share in the sources of finance for the corporate. Various indicators such as reduced velocity are pointers in the direction in the increases in the safety of the market. The safety of the market has also been considerably enhanced by adoption of risk management practices and the setting up of settlement guarantee funds and investor protection funds. The integrity and transparency of the market has also gone up with the wider availability of information regarding the performance of the corporate. The trading and settlement framework in the Indian stock exchanges now compares favorably with the best international practices. Liquidity in the market has also improved considerably. During the last few years, there has been increasing awareness of investment opportunities among the public. Business newspaper and financial journals (The Economic Times, The Financial Express Business India, and Money etc) have made the people aware of new long- term investment opportunities in the security market. A large number of big corporations have shown impressive growth. This has helped in building up the confidence of the public. The small investors who were not interested to buy securities from the market are now showing preference in favour of shares and debentures. As a result, public issues of most of the good companies are now oversubscribed many times. Since 1980s there has been a remarkable growth in the number of entrepreneurs. This created more demand for short term and long- term funds. FIs banks and stock market enable the entrepreneurs to raise the required funds. This has led to the growth of capital market in India.

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