A STUDY ON RISK MANAGEMENT IN NSE OF INDIA

Chetan Vyas, Dr. M. Deepamalar
Research Scholar, SSSUTMS, SEHORE, MP
Research Guide, SSSUTMS, SEHORE, MP

Abstract

Stock Exchanges assume a vital part in the development and improvement of the economy. They decide the monetary wellbeing of the nation and have a critical part in activating assets for the improvement of capital market. The fundamental capital market organizations in India are Commercial Banks, Stock Exchanges, Insurance Companies, particular banks and Non-banking Financial Institutions (NBFIs). Stock Exchanges give offices to uniting providers and clients of capital. Capital market is commanded by the part of stock exchange, National and worldwide market impact legislative issues, social strategy and lives of millions. Over the two decades India's economy has experienced a significant change by virtue of progressing monetary changes process which had huge positive effects all through the economy and has prompted capital and money related market building up the organizations, directions and practices that have put it at standard with the accepted procedures of the world most looked for capital market.

Keywords: Stock Exchanges, Exogenous technology, NBFIs

Introduction

Stock Exchanges assume a vital part in the development and improvement of the economy. They decide the monetary wellbeing of the nation and have a critical part in activating assets for the improvement of capital market. The fundamental capital market organizations in India are Commercial Banks, Stock Exchanges, Insurance Companies, particular banks and Non-banking Financial Institutions (NBFIs). Stock Exchanges give offices to uniting providers and clients of capital. The part of stock exchanges in the general economy is extremely huge in India and Iran as far as individuals included and sum contributed. It has enrolled an enormous upsurge. Market capitalization is up complex and normal day by day volume has continually been expanding since 1991. India's stock exchanges are viewed as the quickest developing in the third world developing markets. Capital market is commanded by the part of stock exchange, National and worldwide market impact legislative issues, social strategy and lives of millions. Over the two decades India's economy has experienced a significant change by virtue of progressing monetary changes process which had huge positive effects all through the economy and has prompted capital and money related market building up the organizations, directions and practices that have put it at standard with the accepted procedures of the world most looked for capital market.

Investments –Financial and Economic meaning

From the money related point of view of perspective of speculators or providers of capital, venture is the dedication of present supports with a specific end goal to determine future salary as premium, profit, retirement benefits, or of thankfulness in the estimation of the vital. So the designation of cash over resources that is to yield some increase over a period is monetary speculation. It is an exchange of budgetary cases for cash and is relied upon to yield returns and experience capital development throughout the years. Truth be told most interests in well-known sense are exchanges of monetary resources starting with one individual then onto the next. The thoughts on the idea of interest in the money related or prevalent sense ought to be stood out from its significance in the financial sense. In the last setting the term venture infers the development of new and beneficial capital as development, new makers' strong gear or extra inventories. It is the interest in genuine resources that realizes the generation of products and ventures to maximize the present estimation of proprietor's value. Be that as it may, from the view purpose of budgetary venture whether the cash spared and contributed is given to a 'profitable' utilize isn't vital. So also it doesn't make a difference whether the assets are to be utilized for new resources. The buy in the open market of a 'second hand' instrument, for example, security or offer is the same amount of as a speculation as the buy of a security issued for new capital.

Indian Capital Market

The Indian Capital Market is over exceptionally old. Its history backpedals to 1875, when 22 merchants shaped the Bombay Stock Exchange (BSE). Over the period the Indian securities advertise has advanced constantly to end up a standout amongst the most powerful current and proficient securities showcase in Asia today. Indian Capital market affirms to best worldwide practices and measures both as far as structure and terms of working productivity. Indian Securities markets are essentially represented by a-The Companies Act, 1956 b-Securities Contracts (Regulation) Act, (SCRA) 1956 and c-Securities Exchange Board of India (SEBI) Act, 1992. The Companies Act 1956 manages issue, assignment and exchange of securities and different angles identifying with organization administration. It gives standards to revelations in the general population issues, directions for under-composing and issues identifying with utilization of rebate and premium. SCRA gives controls to immediate and circuitous control of stock exchanges with a plan to avoid unfortunate exchanges in securities. It gives administrative ward to Central Government over stock exchanges, contracts in securities, posting of securities on stock exchange.

National Stock Exchange of India

Since its inception in 1992, National Stock Exchange of India has been at the vanguard of change in the Indian securities market. This period has seen remarkable changes in markets, from how capital is raised and traded, to how transactions are cleared and settled. The market has grown in scope and scale in a way that could not have been imagined at the time. Average daily trading volumes have jumped from ` 17 crore in 1994-95 when NSE started its Cash Market segment to ` 16,959 crore in 2009-10. Similarly, market capitalization of listed companies went up from ` 363,350 crore at the end of March 1995 to ` 6,009,173 crore at end March 2010. Indian equity markets are today among the most deep and vibrant markets in the world. NSE offers a wide range of products for multiple markets, including equity shares, Exchange Traded Funds (ETF), Mutual Funds, Debt instruments, Index futures and options, Stock futures and options, Currency futures and Interest rate futures. Our Exchange has more than 1,400 companies listed in the Capital Market and more than 92% of these companies are actively traded. The debt market has 4,140 securities available for trading. Index futures and options trade on four different indices and on 190 stocks in stock futures and options as on 31st March, 2010. Currency futures contracts are traded in four currency pairs. Interest Rate Futures (IRF) contracts based on 10 year 7% Notional GOI Bond are also available for trading.

Indian Stock Market and Economic Growth

Financial markets play an important role in the mobilization of financial resources for long term investment through financial intermediation. The financial system comprises all financial markets, instruments and institutions. The financial system is also particularly important in reallocating capital and thus providing the basis for the continuous restructuring of the economy that is needed to support growth. [3] Financial markets comprises of money markets, capital markets, commodity markets, derivatives market, insurance markets and foreign exchange market. Money markets facilitate trading in short-term debt instruments to meet short-term needs of large users of funds such as governments, banks and similar institutions. Unlike the money market, the capital market mobilizes long-term debt and equity finance for investments in long-term assets. Commodity markets facilitate the trading of commodities, Derivatives Market provides instruments for management of financial risk, Insurance Markets facilitate redistribution of various risks and Foreign Exchange Markets facilitate trading of foreign exchange. (NSE, Indian Securities Market- A Review 2012) The growing importance of capital market around the world has reinforced the belief that finance is an important ingredient for economic growth. The securities segment of the capital market complement traditional lending institutions by providing risk capital (equity) and loan capital (debt). By means of these instruments, the market is able to mobilize long-term savings and provide capital to investors to finance long-term investments there by broadening the ownership of productive assets. Dealers in the 39 securities segment of the capital market include banking institutions, stockbrokers, investment and merchant bankers and venture capitalists that intermediate between the market and the public.

The Stock Market in Endogenous Growth Models

During the last decade a booming literature of endogenous growth model has emerged. These models aim to overcome some of the problems inherent in neo-classical growth models. Specifically, the neo-classical model assumes that the economy will stop growing at some point unless it is stimulated by some exogenous technological progress [McCallum (1996)]. The endogenous growth models use neo-classical assumptions to show that an economy can experience everlasting growth. There are several endogenous growth models, each modeling some internal mechanism which is the source of growth. In the present analysis, we are concerned with the family of endogenous growth models in which financial intermediation is modeled explicitly. In these models financial intermediation enhances economic growth mainly in three ways: first, financial institutions pool funds and by predicting withdrawal demand they economize on liquid reserve holdings and direct these funds towards production. This effect is mainly attributed to the banking sector and it has been modeled by Diamond and Dybvig (1983). With respect to the role of the stock market, it provides liquidity to entrepreneurs when they need it, so they do not have to liquidate their investment.

Similar models are presented by [2]. Their models focus on the effect of improved liquidity as transaction costs fall, to the savings rate of return and the growth rate of the economy, and show that under certain conditions, greater liquidity may result in lower growth rate. [3] develops a model where through the development of the stock market, agents avoid both liquidity and productivity risk. The latter refer to the ability to diversify. Second, financial institutions acquire information which enables them to allocate capital efficiently. Probably the best known endogenous growth model in this area is the one presented by [4]. In their model, financial activity develops as the economy develops. The most important role of intermediation is to collect and analyze information, thus facilitating the allocation of funds in projects with the highest return. [5] Present two models where again, financial markets develop together with the economy. The first model can accommodate either banks or an equity market. It is shown that equity markets increase the economic growth rate if and only if, agents are sufficiently risks averse. In this case, if the economy was bank based, agents would be reluctant to invest their funds in physical capital. Their model may have implications for developing economies because it assumes that financial development requires some initial real development. This is because of the costs involved in establishing a financial market. According to this model, financial intermediation may not be appropriate if it is imposed by the government to promote growth. Instead, the economy should develop to such a degree that would result in an increase in market activity. The second model shows how intermediation can support specialization which is important in economic activity. This model shows how resource allocation is done more efficiently through financial intermediaries. Finally, investors can diversify through intermediaries, obtaining higher and safer returns. This results in increased investment and growth.

The Role of the Indian Capital Market

The capital market in India is a business opportunity for securities, where organizations and governments can raise long haul stores. It is a market intended for the offering and purchasing of stocks and securities. Stocks and securities are the two noteworthy approaches to produce capital and long haul stores. Therefore, the security markets and stock markets are considered as capital markets. The capital markets comprise of the essential market, where new issues are circulated to financial specialists, and the optional market, where existing securities are exchanged. Likewise, the Indian Equity Markets and the Indian Debt markets do frame some portion of the Indian Capital market. The Indian Equity Market depends primarily on rainstorm, worldwide assets streaming into values and the execution of different organizations. The Indian Equity Market is entirely ruled by two noteworthy stock exchanges - National Stock Exchange of India Ltd. (NSE) and The Bombay Stock Exchange (BSE). The benchmark files of the two exchanges - Nifty of NSE and Sensex of BSE are nearly observed by the financial specialists. The two exchanges additionally have a F and O (Futures and alternatives) portion for exchanging value subsidiaries including the records. The significant players in the Indian Equity Market are Mutual Funds, Financial Institutions and FIIs speaking to for the most part Venture Capital Funds and Private Equity Funds. The Indian Equity Market at show is a lucrative field for financial specialists. The Indian stocks are gainful for long and medium-term financial specialists, as well as for the position brokers, here and now swing dealers and furthermore here and now intra-informal investors and examiners.

Conclusion

The Risk Disclosure Document was issued by the National Stock Exchange of India (NSE) in co-appointment with the Securities and Exchange Board of India (SEBI) and contains critical data on exchanging the values section of NSE. All constituents are asked to peruse it before making a buy or an offer of any security being exchanged on NSE. NSE-SEBI did not neither explicitly nor impliedly ensure nor make any portrayal concerning the culmination, the ampleness or precision of the uncover archive nor had NSE/SEBI supported or passed any benefits of taking part in this exchanging section. In any case, this short explanation did not uncover every one of the risks and other critical parts of exchanging.

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