ORIGINAL RESEARCH PAPER

Commerce

CAPITAL MARKET REFORMS IN INDIA

KEY WORDS: Capital Market, Investors, Oligopolistic, Problems, Reforms

Dr, Jigar R Raval Principal Shri K.M. & Smt.K. K. Savjani BBA/BCA College Veraval

ABSTRACT

Capital Market is vital for the growth and development of an economy. Now-a-days individual investors, mutual funds, pension funds and insurance funds place their money in various instruments of capital market. Therefore, sustainable and pragmatic development of capital market has become essential. With globalization of economies, the role of capital market regulator assumes more significant and the regulator has to be dynamic and responsive to challenges and changes not only to domestic but also to international ones. The most important issue to be kept in mind of the regulator is the traders and investors' interest. Regulation is not a static subject and it is a very dynamic one. The capital market reforms and its relationship with the Indian stock market is of great significance from the point of view of growth and development of the Indian economy. Pre- globalisation capital market reforms did not have major positive impacts on the volatility, liquidity and various other economic indicators of the stock market. However, the post- globalisation reforms led to a marked improvement for the stock market development which has led to the economic growth in India and the relationship between them have proved to be long term as well as beneficial to the Indian economy.

INTRODUCTION

Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions. Capital markets help channelize surplus funds from savers to institutions which then invest them into productive use 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 the secondary markets. In economics, typically, the term market means the aggregate of possible buyers and sellers of a certain good or service and the transactions between them. The term "market" is sometimes used for what are more strictly exchanges, organizations that facilitate the trade in financial securities, e.g., a stock exchange or exchange in Finance, Financial Markets facilitate:

1. The raising of capital (in the Capital Markets)
2. The transfer of risk (in the Derivatives Markets)
3. The transfer of liquidity (in the Money Markets)
4. International trade (in the Currency Markets)

MAJOR PROBLEMS OF SECONDARY CAPITAL MARKET IN INDIA

This part of the article broadly covers the major challenges to the smooth functioning of the secondary capital market in India. These problems or barriers may be political, socio-economic or administrative in natures which are discussed here. Throughout the various phases, the secondary capital market in India has experienced growth and at the same time, some bottlenecks were also experienced. Some of them are mentioned as below:

1. MULTIPLE REGULATIONS

Immediate after independence, some steps were taken to regulate the Indian capital market. During the post independence phase, Indian Companies Act was passed in the year 1956. Before this, Capital Issues (Control) Act, 1947 also came into existence. Then Securities Contract (Regulation) Act was passed in the year 1956. Though the objectives of these acts were good, some provisions of these different acts were contradictory to each other. These multiple regulations also had negative impact on capital market developments.

2. ISOLATED STOCK EXCHANGES

The stock exchanges in India have a presence only at particular locations. At the respective locations, normally trade takes place which is also characterized by regional features. But it must also be noted that stock brokers of one stock exchange were not allowed to operate in any other stock exchange. The stock exchanges were even not allowed to have branches at different locations. Due to this problem, only few stock exchanges like BSE

dominated the trade in capital markets. But this had made other stock exchanges isolated. These stock exchanges were located in distant places throughout the country. But these regional stock exchanges were not much backed by volume of trading.

3. LACK OF PROTECTION TO INVESTORS

Though some laws were enacted during the earlier phase, there were no provisions ensuring investors' protection. There was no separate mechanism to look after grievances of investors. No guidelines were given

4. OPEN OUTCRY

When the capital markets started functioning, few brokers used to come together at a particular place and perform trading activities. As the number of listed companies increased and number of brokers also increased, it was difficult to perform trading.

5.PROBLEMS FACED DURING THE POST LIBERAL IZATION PERIOD (1991 ONWARDS)

The two decades have lapsed after India accepted the globalization policy as a weapon for financial sector reforms. From restricted regime, slowly the economy moved towards open economy. Instead of control and restriction, the words management and development were used frequently. Even legal terminologies were also relaxed to some extent. By the year 1991, the number of listed companies was over six thousand which crossed eleven thousand marks in the year 2011. The market capitalization, daily trading volumes increased by leaps and bounds during the last two decades. As the private as well as foreign investment was allowed in various sectors, it provided a huge boost to the capital markets in India. If we look at the index numbers or share prices of companies, there has been huge upswing after 1991, after inception of financial sector reforms.

REFORMS IN CAPITAL MARKET SINCE 1991

The government has taken several measures to develop capital market in post-reform period, with which the capital market reached new heights. Some of the important measures are Dematerialisation of Shares Dematerialisation of shares has been introduced in all the shares traded on the secondary stock markets as well as those issued to the public in the primary markets. Even bonds and debentures are allowed in demat form. The advantage of demat trade is that it involves

Paperless trading. Screen Based Trading The Indian stock exchanges were modernised in 90s, with Computerised Screen Based Trading System (SBTS), It cuts down time, cost, risk of error and fraud and there by leads to improved operational efficiency. The trading system also provides complete online market information through various inquiry facilities. Establishment of Securities and Exchange Board Of India (SEBI) SEBI became operational since 1992. It was set with necessary powers to regulate the activities connected with marketing of securities and investments in the stock exchanges, merchant banking, portfolio management, stock brokers and others in India. The objective of SEBI is to protect the interest of investors in primary and secondary stock markets in the country.

INVESTOR PROTECTION

The Central Government notified the establishment of Investor Education and Protection Fund (IEPF) with effect from 1st Oct. 2001: The IEPF shall be credited with amounts in unpaid dividend accounts of companies, application moneys received by companies for allotment of any securities and due for refund, matured deposits and debentures with companies and interest accrued there on, if they have remained unclaimed and unpaid for a period of seven years from the due date of payment. The IEPF will be utilised for promotion of awareness amongst investors and protection of their interests.

THE NATIONAL SECURITIES CLEARING CORPORA TION LIMITED (NSCL)

The NSCL was set up in 1996. It has started guaranteeing all trades in NSE since July 1996. The NSCL is responsible for post-trade activities of NSE. It has put in place a comprehensive risk management system, which is constantly monitored and upgraded to pre-expect market failures.

TRADING IN CENTRAL GOVERNMENT SECURITIES

In order to encourage wider participation of all classes of investors, Including retail investors, across the country, trading in government securities has been introduced from January 2003. Trading in government securities can be carried out through a nationwide, anonymous, order-driver, screen-based trading system of stock exchanges in the same way in which trading takes place in equities.

CREDIT RATING AGENCIES

Various credit rating agencies such as Credit Rating Information services of India Ltd. (CRISIL– 1988), Investment Information and credit Rating Agency of India Ltd. (ICRA – 1991), etc. were set up to meet the emerging needs of capital market. They also help merchant bankers, brokers, regulatory authorities, etc. in discharging their functions related to debt issues.

BUY BACK OF SHARES

Since 1999, companies are allowed to buy back of shares. Through buy back, promoters reduce the floating equity stock in market. Buy back of shares help companies to overcome the problem of hostile takeover by rival firms and others.

DERIVATIVES TRADING

Derivatives trading in equities started in June 2000. At present, there are four equity derivative products in India Stock Futures, Stock Options, Index Futures, Index Options. Derivative trading is permitted on two stock exchanges in India i.e. NSE and BSE. At present in India, derivatives market turnover is more than cash market.

PAN MADE MANDATORY

In order to strengthen the "Know your client" norms and to have sound audit trail of transactions in securities market, PAN has been made mandatory with effect from January 1, 2007.

MUTUAL FUNDS

Mutual Funds are an important avenue through which households participate in the securities market. As an investment intermediary, mutual funds offer a variety of services / advantages to small investors. SEBI has the authority to lay down guidelines and supervise and regulate the working of mutual funds.

SUGGESTION

1. Managing Investment of growing balances for which development of financial and capital market and greater attention to corporate governance will be necessary
2. Achieving transparency and accountability
3. Giving higher priority to fiduciary responsibility
4. Reducing administrative costs, and investment manag ement fees and charges

CONCLUSION

Capital market is playing its important role in the develo pment of Indian economy. Indian capital market suffered bruises in the last part of the nineties owing to the manipulative trade practices of unscrupulous brokers and other participants; it has been witnessing fine times in the recent past, thanks to many favourable conditions contributing to it. With the kind and the quality of human skills possessed by India's financial Industry, it is quite imperative that there is need to provide sound capital foundation for the stock market A study of capital market significantly involves a study of problems which emerged in various phases of development of capital market in India. This article has presented these problems in a phased manner. Apart from this, an attempt has also been made to analyze the frauds which have taken place during last one and half century. The problems experienced in the Indian capital markets as well as the scams were significant as they proved to be hindrances in the smooth functioning of capital markets. Due to these hindrances a genuine investor has remained aloof from the market while more and more speculators and institutional investors continued to dominate the capital markets in India.

REFERENCES

1. Avadhani V. A.- "Investment Management", Himalaya Publishing House, Mumbai, 5th Revised Edition, 2002.
2. Bhaskara, P. Vijaya & Mahapatra, B. (2003), Derivatives Simplified: An Introduction to Risk Management, Sage Publication, New Delhi
3. 3.Vashistha, S. D., The Secondary Capital Market: Some Important Aspects, The Indian Journal of Commerce, Conference Issue (2001), Vol. 54 No. 4
4. 4.Vijaysingh Thakur Devendrasingh, Emerging Issues in Capital Market, The Indian Journal of Commerce, Conference Issue (2001), Vol. 54 No. 4
5. SEBI Report on reallocation of shares in the matter of IPO irregularities, 2007, pp. 1-7 4. Machiraju, H R (1995): The Working of Stock- Exchanges in India, New Age International Publishers, and New Delhi. 5. Bhole, L.M. Financial Insitutions and Markets, TATA McGraw Hill, New Delhi, 1999, pp.376-395. 6. Survey Report of NCAER-SEBI (2011) pp. 4-10