

Multiplicity of Exchanges

The stock exchanges are the exclusive centres for trading of securities. The regulatory framework favours them heavily by almost banning trading of securities outside exchanges. They enjoy monopoly in the respective cities where they are located. Listing of companies on the local exchange is mandatory to provide an opportunity to investors to invest in the securities of local companies. The companies wishing to list their securities must get listing on the regional (an exchange is considered regional for the state/Union Territory where it is located) stock exchange nearest to their registered office. If they so wish, they can seek listing on other exchanges also. In a vast country like India, investors long for convenience of trading from a nearby place and take pride also in having stock exchanges in their vicinity. Monopoly of the exchanges within their allocated area, regional aspirations of the people and mandatory listing on the regional stock exchange resulted in multiplicity of exchanges. As a result, we have 24 exchanges (The Capital Stock Exchange, the latest in the list, is yet to commence trading) in the country recognised over a period of time to enable investors across the length and breadth of the country to access the market.

Until recently, the area of operation/jurisdiction of an exchange was specified at the time of its recognition, which in effect precluded competition among the exchanges. These are called regional exchanges. However, the three newly set up exchanges (OTCEI, NSE and ICSE) were permitted since their inception to have nation wide trading. Listing on these exchanges was considered adequate compliance with the requirement of listing on the regional exchange. SEBI recently allowed all exchanges to set up trading terminals anywhere in the country. Many of them have already expanded trading operations to different parts of the country. The trading platforms of many exchanges are now accessible from a location. Further, with extensive use of information technology, the trading platforms of a few exchanges are also accessible from anywhere

through the Internet and mobile devices. This made a huge difference in a geographically vast country like India. It significantly expanded the reach of the exchange to the homes of ordinary investors and assuaged the aspiration of the people to have exchanges in their vicinity. The issuers/investors now prefer to list/trade on exchanges providing nation-wide network rather than on regional exchanges. Consequently, territorial jurisdiction of an exchange, opportunity to invest in securities of local companies through listing on regional exchanges, and convenience of trading from a nearby exchange lost relevance, thanks to emergence of technology savvy exchanges.

The trading volumes on exchanges have been witnessing phenomenal growth for last few years. Since the advent of screen based trading system in 1994-95, it has been growing at an annual compound growth rate of about 64% and reported a total turnover of Rs. 33,13,338 crore in 2000-2001. The growth of turnover has, however, not been uniform across exchanges as may be seen from Table 1. The increase in turnover took place mostly at big exchanges and it was partly at the cost of small exchanges that failed to keep pace with the changes. The business moved away from small exchanges to exchanges, which adopted technologically superior trading and settlement systems. The huge liquidity and order depth of big exchanges further sucked liquidity of other stock exchanges. As a result, 17 small exchanges put together reported less than 1% of total turnover during 2000-2001, while 6 big exchanges accounted for over 99%. About a dozen exchanges reported nil turnover during 2000-2001. For most of the exchanges, the *raison d'être* for their existence, i.e. turnover, has disappeared.

NSE and BSE are the major exchanges having nationwide operations. While NSE operated through 3462 VSATs in 420 cities, BSE operated through 1875 VSATs from 403 cities at the end of March 2001. The turnover in the CM segment from non-Mumbai locations accounted for 52% of NSE's turnover while VSAT turnover accounted for 42% of turnover of BSE during 2000-2001. Table 2

* Economic Adviser, NSE. The views expressed and the approach suggested in this paper are of the author and not necessarily of his employer.

Table 1 A: Growth and Distribution of Turnover on Stock Exchanges

(Rs. crore)

Stock Exchanges	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001
1 NSE	8,509	80,009	336,782	481,197	519,852	1,143,268	1,770,458
2 Mumbai	67,748	50,064	124,284	207,383	311,999	685,028	1,001,619
3 Calcutta	52,872	62,128	105,664	178,778	171,780	357,166	355,035
4 Delhi	9,083	10,076	48,631	67,840	51,759	93,289	83,871
5 Ahmedabad	5,651	8,786	20,533	30,771	29,734	37,566	54,035
6 Uttar Pradesh	7,823	2,373	16,070	15,390	18,627	24,048	24,747
7 Ludhiana	2,488	4,849	5,274	8,315	5,978	7,741	9,732
8 Pune	3,672	7,071	9,903	8,624	7,453	6,087	6,171
9 Bangalore	712	890	4,398	8,636	6,779	11,147	6,033
10 Hyderabad	1,375	1,285	480	1,860	1,276	1,237	978
11 ICSE	-	-	-	-	1	545	233
12 Cochin	597	1,803	1,401	1,783	773	0	187
13 OCTEI	365	218	221	125	142	3,588	126
14 Madras	3,033	1,594	2,315	1,228	370	250	109
15 Madhya Pradesh	118	204	12	1	1	10	2
16 Magadh	797	1,629	2,755	323	0	8	2
17 Vadodara	1,621	1,259	4,268	4,576	1,749	159	1
18 Gauhati	285	619	484	20	30	0	0
19 Bhubaneshwar	143	226	231	202	77	70	0
20 Coimbatore	1,310	2,503	2,398	2,136	395	39	0
21 Jaipur	879	1,047	1,519	431	65	2	0
22 Mangalore	62	39	373	308	11	0	0
23 SKSE	545	564	398	17	0	0	0
Total	169,686	239,236	688,394	1,019,944	1,128,851	2,371,247	3,313,338

Table 1 B: Percentage Distribution of Turnover on Stock Exchanges

Stock Exchanges	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001
1 NSE	5.01	33.44	48.92	47.18	46.05	48.21	53.43
2 Mumbai	39.93	20.93	18.05	20.33	27.64	28.89	30.23
3 Calcutta	31.16	25.97	15.35	17.53	15.22	15.06	10.72
4 Delhi	5.35	4.21	7.06	6.65	4.59	3.93	2.53
5 Ahmedabad	3.33	3.67	2.98	3.02	2.63	1.58	1.63
6 Uttar Pradesh	4.61	0.99	2.33	1.51	1.65	1.01	0.75
7 Ludhiana	1.47	2.03	0.77	0.82	0.53	0.33	0.29
8 Pune	2.16	2.96	1.44	0.85	0.66	0.26	0.19
9 Bangalore	0.42	0.37	0.64	0.85	0.60	0.47	0.18
10 Hyderabad	0.81	0.54	0.07	0.18	0.11	0.05	0.03
11 ICSE	-	-	-	-	0.00	0.02	0.01
12 Cochin	0.35	0.75	0.20	0.17	0.07	0.00	0.01
13 OCTEI	0.22	0.09	0.03	0.01	0.01	0.15	0.00
14 Madras	1.79	0.67	0.34	0.12	0.03	0.01	0.00
15 Madhya Pradesh	0.07	0.09	0.00	0.00	0.00	0.00	0.00
16 Magadh	0.47	0.68	0.40	0.03	0.00	0.00	0.00
17 Vadodara	0.96	0.53	0.62	0.45	0.15	0.01	0.00
18 Gauhati	0.17	0.26	0.07	0.00	0.00	0.00	0.00
19 Bhubaneshwar	0.08	0.09	0.03	0.02	0.01	0.00	0.00
20 Coimbatore	0.77	1.05	0.35	0.21	0.03	0.00	0.00
21 Jaipur	0.52	0.44	0.22	0.04	0.01	0.00	0.00
22 Mangalore	0.04	0.02	0.05	0.03	0.00	0.00	0.00
23 SKSE	0.32	0.24	0.06	0.00	0.00	0.00	0.00
Share of largest 6	89.39	89.22	94.71	96.22	97.78	98.70	99.29
Share of smallest 17	10.61	10.78	5.29	3.78	2.22	1.30	0.71
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: SEBI and NSE

Note:

1. Turnover means total value of transactions of securities in all the market segments of an Exchange.
2. The stock exchanges have been arranged in descending order of the turnover during 2000-2001.

Table 2: Turnover on NSE terminals Vs. Turnover on other Exchanges in the City
(Rs. crore)

Stock Exchange/ Exchange City	1998-99		1999-2000		2000-2001	
	NSE	Exchange	NSE	Exchange	NSE	Exchange
1 Mumbai (BSE)	165,097	311,999	371,402	685,028	647,624	1,000,032
2 Mumbai (OTCEI)	165,097	142	371,402	3,588	647,624	126
3 Mumbai (ICSE)	165,097	1	371,402	545	647,624	233
4 Calcutta	42,812	171,780	82,671	357,166	110,352	355,035
5 Delhi	78,701	51,759	149,135	93,289	228,105	83,871
6 Ahmedabad	10,549	29,734	22,295	37,566	35,940	54,035
7 Uttar Pradesh (Kanpur)	4,133	18,627	5,325	24,048	7,359	24,746
8 Ludhiana	1,205	5,978	1,784	371,402	2,404	9,732
9 Pune	4,941	7,453	10,487	6,087	14,349	6,171
10 Bangalore	8,327	6,779	11,951	11,147	22,690	6,033
11 Hyderabad	12,648	1,276	20,709	1,237	30,759	978
12 Cochin	2,680	773	6,186	0	10,067	187
13 Chennai	17,317	370	32,590	250	45,495	109
14 Madhya Pradesh (Indore)	3,287	1	8,904	10	15,129	2
15 Magadh (Patna)	624	0	685	8	1,006	2
16 Vadodara	3,458	1,749	6,794	159	9,814	1
17 Coimbatore	3,793	395	4,961	39	7,854	0
18 Bhubaneshwar	409	77	365	70	577	0
19 Jaipur	4,344	65	10,271	2	14,196	0
20 Guwahati	787	30	741	0	1,316	0
21 Mangalore	493	11	863	0	1,117	0
22 SKSE (Rajkot)	2,124	0	3,860	0	5,066	0

Source: SEBI & NSE

Note: The NSE figures relate to its volumes in the CM segment (not WDM and Derivatives segments) only from the concerned city, while all other figures represent all India turnover of the concerned exchange.

Table 3: Financial Health of Regional Stock Exchanges

(Rs. lakh)

Stock Exchange/	1998-99			1999-00		
	Income	Expenditure	Profit/Loss	Income	Expenditure	Profit/Loss
1 Ahmedabad	910	797	114	976	913	63
2 Bangalore	287	471	-184	324	444	-120
3 Bhubaneshwar	112	77	34	102	86	15
4 Calcutta	2,074	2,026	48	3,769	2,774	995
5 Cochin	157	287	-130	124	230	-106
6 Coimbatore	116	240	-124	93	210	-117
7 Delhi	1,793	1,667	126	2,189	1,915	274
8 Gauhati	57	73	-17	54	52	1
9 Hyderabad	207	288	-80	264	266	-2
10 ICSE	24	131	-107	66	517	-452
11 Jaipur	226	227	-1	221	295	-73
12 Ludhiana	395	361	34	378	369	9
13 Madhya Pradesh	76	103	-27	126	91	35
14 Madras	350	229	121	343	280	63
15 Magadh	40	53	-13	37	70	-34
16 Mangalore	55	64	-9	55	60	-5
17 OTCEI	636	1,457	-821	568	1,232	-665
18 Pune	282	283	-1	286	263	23
19 SKSE	117	188	-71	133	149	-16
20 Uttar Pradesh	273	317	-43	301	354	-53
21 Vadodara	248	277	-29	269	279	-10
22 Mumbai	7,484	5,931	1,553	13,008	7,781	5,227
23 NSE	15,075	12,399	2,676	20,543	15,995	4,548
Total (Except NSE & BSE)	8,438	9,618	-1,181	10,676	10,852	-175
Total	30,997	27,948	3,049	44,227	34,628	9,599

Source: Annual Reports of Stock Exchanges

Note: Major extraordinary items like profit on sale of assets and forfeitures have been excluded.

presents the comparative volumes of turnover of other stock exchanges vis-à-vis turnover of NSE terminals (only CM segment) from different cities. It is observed that NSE now reports higher turnover from its trading terminals in the home turf of most of the corresponding regional exchanges. This indicates declining attractiveness of regional exchanges even for local investors.

Every stock exchange follows its own practices and procedures in respect of listing and trading of securities, clearing and settlement of transactions, and risk containment measures. The existence of 24 exchanges with their regional peculiarities to some extent fragments the market and thereby disperses liquidity. As a result, the same security is quoted at widely different prices on different exchanges at the same time because of differences in local demand and supply conditions and differences in settlement systems. Further, operators shift positions across exchanges to gain from different settlement cycles. Such shifting of positions from one exchange to another builds up speculation distorting price discovery. There is competition among the issuers to list securities on as many exchanges as possible to attract investors from all over the country and waste resources to comply with the listing requirements of a number of exchanges simultaneously. Similarly, there is competition among the exchanges to attract as many issuers as possible at times leading to dilution of listing standards particularly when listing constitutes a major source of income for many of them. They also waste resources as a number of them simultaneously monitor compliance with listing requirements, which are by and large uniform across exchanges.

Viability of Exchanges

With fall in turnover, the financial health of many exchanges is deteriorating. While the income of the small exchanges is not increasing, they continue to incur increasing administrative and maintenance expenses and increased investment on setting up on-line trading and settlement systems. As may be seen from Table 3, about a dozen exchanges suffered losses during 1999-2000. (The data for 2000-2001, which would paint a further gloomy picture, are not yet available). The exchanges (except NSE and BSE) together incurred a total loss of about Rs. 2 crore while BSE and NSE earned a profit of Rs. 52.3 and Rs. 45.5 crore respectively.

Such poor financial performance is despite the fact that

the exchanges earn substantial amount of non-business income (income from listing, interest and rent), as may be seen from Table 4. Listing contributed Rs. 48 crore during 1999-2000. This has become a perennial source of income for the exchanges and irrespective of the volume of business, it contributes almost the same amount year after year. The listing income accounted for as high as 85% of total income of Gauhati Exchange. The exchanges also earned Rs. 125 crore from interest and rent during 1999-2000. The interest income has increased in recent years mostly because of increase in custodial deposits collected by the Exchanges for risk management. The income from interest and rent accounted for as high as 75% of total income of OTCEI. Thus, non-business income accounted for 76% and 68% of total income for all exchanges (except NSE and BSE) and 47% and 39% for all exchanges respectively in 1998-99 and 1999-2000. Despite zero/negligible turnover, a few exchanges like Bhubaneswar, Gauhati, Madhya Pradesh, Madras, managed to earn a profit, albeit negligible, only because of their non-business income. Business income (membership fees and subscriptions, transaction-based service charges, miscellaneous income) increased substantially from Rs. 165 crore in 1998-99 to Rs. 269 crore in 1999-2000 primarily because of increase in volume of transactions in securities on exchanges. It still accounted for only 32% of total income of exchanges (except NSE and BSE) and 61% of all exchanges during 1999-2000. It accounted for as high as 81% of total income of NSE in 1999-2000. The pattern of revenue of small exchanges varies sharply from that of big exchanges; non-business income and business income contribute major portion of revenue of small and big exchanges respectively. If the exchanges were not having non-business income, only one exchange, i.e. NSE, would be earning profit during 1999-2000 and the exchanges together would have posted a loss of Rs. 77 crore.

Table 5 presents operational efficiency of the exchanges. This table has been constructed from their financial statements. It is very difficult to compare the figures across exchanges as they follow different accounting practices. The format of the balance sheet and profit / loss account as well as the items included under different heads differs widely. For example, some exchanges include the deposits received from members in the

Table 4: Revenue Generation by Stock Exchanges

(Per cent)

Stock Exchange	1998-99				1999-2000			
	Non-Business Income		Business Income	Total	Non-Business Income		Business Income	Total
	Listing Fees	Interest & Rent			Listing Fees	Interest & Rent		
1 Ahmedabad	60.72	26.13	13.15	100.00	61.49	24.38	14.12	100.00
2 Bangalore	38.79	26.08	35.13	100.00	35.50	27.75	36.75	100.00
3 Bhubaneswar	27.34	64.24	8.42	100.00	22.51	68.84	8.65	100.00
4 Calcutta	25.29	23.47	51.24	100.00	14.07	23.00	62.93	100.00
5 Cochin	32.97	25.24	41.79	100.00	32.84	21.91	45.26	100.00
6 Coimbatore	10.06	49.36	40.58	100.00	12.67	76.02	11.30	100.00
7 Delhi	48.49	48.10	3.41	100.00	37.81	58.86	3.33	100.00
8 Gauhati	77.84	9.75	12.41	100.00	84.82	5.35	9.83	100.00
9 Hyderabad	63.94	19.86	16.19	100.00	61.33	16.51	22.15	100.00
10 ICSE	0.00	29.25	70.75	100.00	1.08	49.91	49.01	100.00
11 Jaipur	68.56	20.07	11.37	100.00	70.52	20.45	9.02	100.00
12 Ludhiana	34.89	46.19	18.91	100.00	36.04	40.35	23.61	100.00
13 Madhya Pradesh	78.30	13.41	8.30	100.00	43.67	14.97	41.36	100.00
14 Madras	63.70	15.45	20.85	100.00	70.40	12.83	16.77	100.00
15 Magadh	41.65	34.76	23.59	100.00	54.63	15.36	30.01	100.00
16 Mangalore	32.14	45.70	22.16	100.00	32.17	47.35	20.48	100.00
17 OTCEI	2.71	75.06	22.23	100.00	3.41	75.02	21.57	100.00
18 Pune	20.35	68.58	11.08	100.00	25.42	64.22	10.36	100.00
19 SKSE	20.70	61.20	18.10	100.00	25.11	51.32	23.58	100.00
20 Uttar Pradesh	40.86	31.40	27.73	100.00	37.72	33.52	28.76	100.00
21 Vadodara	50.26	44.92	4.82	100.00	47.26	47.23	5.51	100.00
22 Mumbai	15.04	43.58	41.38	100.00	9.15	38.61	52.25	100.00
23 NSE	1.20	23.40	75.40	100.00	1.06	17.50	81.44	100.00
Total (Except NSE & BSE)	38.80	37.50	23.70	100.00	31.37	36.81	31.82	100.00
Total	14.78	32.11	53.11	100.00	10.76	28.37	60.87	100.00

Source: Annual Reports of Stock Exchanges

Note: 1. Business Income includes income from membership, transaction and service charges, that is total income - income from listing, interest and rent.

Table 5: Performance Indicators of Stock Exchanges

Stock Exchanges	Average Assets (Rs. lakh)	Average Capital (Rs. lakh)	Turnover for 1999- 2000 (Rs. lakh)	PBIT (Rs. lakh)	Output for 1999- 2000 (Rs. cr.)	Assets Turnover Ratio	Return on Capital (%)	Output per Rupee of Asset
1 Ahmedabad	6,575	4,926	976	63	37,566	0.15	1.28	571
2 Bangalore	3,257	2,806	324	-118	11,147	0.10	-4.21	342
3 Bhubaneswar	807	655	102	17	70	0.13	2.62	9
4 Calcutta	53,235	11,331	3,769	995	357,166	0.07	8.78	671
5 Cochin	1,932	696	124	-96	0	0.18	-13.58	0
6 Coimbatore	2,689	1,923	93	-49	39	0.03	-2.54	1
7 Delhi	13,907	6,535	2,189	274	93,289	0.16	4.19	671
8 Gauhati	695	255	54	1	0	0.08	0.48	0
9 Hyderabad	2,770	2,520	264	9	1,237	0.10	0.34	45
10 ICSE	3,139	1,244	66	-408	545	0.02	-32.76	17
11 Jaipur	3,518	2,326	221	-6	2	0.06	-0.24	0
12 Ludhiana	2,973	1,431	378	9	7,741	0.13	0.61	260
13 Madhya Pradesh	681	255	126	35	10	0.19	13.57	1
14 Madras	1,941	1,238	343	63	250	0.18	5.07	13
15 Magadh	353	189	37	-34	8	0.10	-17.93	2
16 Mangalore	745	298	55	-2	0	0.07	-0.73	0
17 OCTEI	8,755	8,225	568	-634	3,588	0.06	-7.71	41
18 Pune	1,775	778	286	23	6,087	0.16	2.96	343
19 SKSE	1,448	1,428	133	-16	0	0.09	-1.09	0
20 Uttar Pradesh	2,154	992	301	-53	24,048	0.14	-5.39	1116
21 Vadodara	2,309	2,075	269	-10	159	0.12	-0.49	7
22 Mumbai	139,478	33,435	13,008	5,227	685,028	0.09	15.63	491
23 NSE	69,626	62,494	20,543	4,777	1,143,268	0.30	7.64	1,642
Total (Except NSE & BSE)	115,656	52,125	10,676	62	542,951	0.09	0.12	469
Total	324,761	148,054	44,227	10,067	2,371,247	0.14	6.80	730

Source: Annual Reports of Stock Exchanges

Note:

1. Average Assets = Average of assets at the beginning and at the close of the year 1999-2000.
2. Average Capital = Average of capital at the beginning and at the close of the year 1999-2000, where Capital = Total Assets - Current Liabilities.
3. Turnover = Total Income (Listing fees, membership subscription, Transaction fees, Interest, Rent, Fines and Miscellaneous income) for the year 1999-2000.
4. PBIT = Profits before interest and tax for the year 1999-2000.
5. Output = The value of stock transactions executed on the exchange during 1999-2000.
6. Asset Turnover Ratio = (Turnover for the year 1999-2000 / Average of assets for the year 1999-2000).
7. Return on Capital = (Profit for the year 1999-2000 / Average of capital employed for the year) * 100.
8. Output per Rupee of Asset indicates the volume of stock transactions that can be supported by Re 1 of asset.

liabilities, while some others include only cash component of deposits. These amounts appear as current liabilities for some exchanges and as contribution by members for some others. Further, certain items have zoomed during the year 1999-2000 making it difficult to apply standard techniques of analysis. For example, total assets of BSE increased from Rs. 771 crore at the end of 1998-99 to Rs. 2019 crore at the end of 1999-2001. Because of these differences, the performance of the exchanges is not strictly comparable with one another.

Asset Turnover Ratio measures operational efficiency. It indicates the number of times the assets have been turned over during a year. It has been worked out by dividing total income (both business and non-business income) by average of total assets used during 1999-2000. It works out 0.09 for exchanges (except NSE and BSE) and 0.14 for all exchanges. It means that assets have been turned over 0.14 times or assets worth Rs. 100 are required to generate an income of Rs. 14. NSE has the highest turnover ratio of 0.3 during 1999-2000.

Similarly, Return on Capital measures the efficiency of resource use. It indicates the percentage return on capital employed. It has been worked out by dividing the profits before interest and tax (PBIT) by average of capital (total assets – current liabilities) employed during 1999-2000. The exchanges as a whole have employed capital of Rs. 1481 crore and generated a PBIT of Rs. 101 crore with a return on capital of 6.8%. The exchanges (except NSE and BSE) together reported a return on capital of 0.1%; many of them even reported negative returns.

In terms of economic efficiency as measured by output generated per Rupee of asset, the performance of small exchanges appears more dismal. The only output the exchanges produce is processing of transactions of securities, though the quality of processing varies widely across the exchanges. In fact, it is the quality of processing like transparency of trading, settlement guarantee, monitoring the listed companies, which have diverted business from small exchanges to big exchanges. Ignoring the quality of processing for a moment, a rupee of asset on average supported transactions worth Rs. 730 during 1999-2000. The transaction per Rupee of asset varied widely from zero to Rs. 1642.

The above analysis makes it clear that 24 exchanges are not viable in the changed environment. There have been attempts in the past by the authorities and exchanges to protect their viability. In a novel experiment, a number of small exchanges joined hands to float another exchange, called Inter Connected Stock Exchange of India Ltd. (ICSE), to provide a separate, inter-connected national market system for their trading members. ICSE contributed a turnover of Rs. 233 crore only during 2000-2001. In another experiment, a small exchange was allowed to promote a subsidiary, which acquired membership of a big exchange (NSE/BSE) and the members of the small exchange were registered as sub-brokers of the subsidiary. As members of NSE, these subsidiaries reported a turnover of Rs. 8672 crore during 2000-2001. These experiments, thus, did not contribute much to revival of the exchanges.

This state of affairs will only worsen in the days to come. A dozen exchanges have reported nil turnover during 2000-2001. Another half dozen would report nil turnover 2001-2002 as all deferral products cease to be available and exchanges shift to rolling/uniform settlement cycles. Most of the transactions on small exchanges, which are positions shifted across exchanges to gain from different settlement cycles, would disappear. Further, the business would keep on shifting from small exchanges to more sophisticated and big exchanges which provide quality processing of transactions. These would reduce business income further for small exchanges. The listing income, which has been more in the nature of a fixed component, is only likely to decline in future once the process of de-listing of companies from these exchanges gains momentum. Many issuers find it difficult to keep on paying listing fees and complying with listing requirements of a number of exchanges without any corresponding gains in terms of volume of transactions. The process has already begun and a number of Indian blue chip companies have declared plans to delist their securities from small exchanges. A few MNCs are also hiking their stakes in their local subsidiaries causing floating stock to reduce below 10%, which invites delisting. The new issuers, who are also few, prefer exchanges with nationwide network, not only because it makes sense to do so, but also it complies with the requirement of listing on the regional exchange. Interest income will also decline with

decline in the interest rates in market. While all these incomes decline, expenditure would not decline proportionately spelling death knell for small exchanges.

All these clearly suggest under utilisation of assets/resources by many exchanges who are no more viable in the changed environment. Neither do they stand a chance of competing with NSE or BSE in terms of trading volumes nor is there enough space for 24 exchanges in the market. They have blocked sizable resources, a part of which can be released for some other use without affecting the quality or quantity of output.

Case of VRS

There was a time when we needed a large number of exchanges spread across the length and breadth of the country. The circumstances changed making most of them redundant. We are now in a catch 22 situation when we neither find enough justification in their continued existence nor do we like to hasten their exit. We seem to be waiting for their natural death, which is not happening for a long time. As a result, clinically dead exchanges are surviving on artificial support system.

From an economic angle, most of the exchanges have completely lost their viability. For any economic unit to be viable, it has to earn normal profits, i.e. earn income over and above what is required for meeting operational costs. It pulls down shutters if it does not earn normal profits. Leave aside profits; most of these exchanges have been generating negative returns and have displayed dismal performance as indicated by various indicators of efficiency. Despite such poor performance and negative returns, they do not respond to changes in economic environment, refuse to exit and presided over an asset base of Rs. 4148 crore at the end of March 2000. We are in a typical soft state where economic units do not respond to incentives and where the market has failed to arrive at desirable outcomes in resource use. This is more striking because these are the institutions who profess to be assisting in best allocation of resources, or channeling scarce resources to most productive use. The state, on the other hand, is not only silently watching wastage of resources by exchanges, but also continuing to extend its protective shield for their continued existence. In a changing environment, economic units generally fail to perceive availability of technological or market opportunities and need state's guidance. State needs to

guide them through coercive regulations or by cooperative action, but is not doing so. The continued existence of stock exchanges in the changed environment thus presents a classic case of market as well as state failure.

In the recent past, there has been some talk about revival of small exchanges including consolidation, merger and takeover of exchanges. This borrows heavily from experience abroad where exchanges have consolidated or developed niche markets. However, it is not very clear what can be achieved by bringing together a few exchanges under one common roof. This would club the assets and the liabilities of the exchanges along with the personnel, which may generate some synergy and may attract some volume for few days. This would not materially alter the position as realised from the experience of consolidating market through ICSE. In fact, only one exchange like NSE would be able to fully meet the demand for securities transactions in India and there is no need even for a second exchange. But we need a second, and probably a third exchange also only for competition. What is required is withdrawal of resources from the current use and using them for some other more productive use.

Clearly there is not enough space for 23 exchanges in Indian securities market. This is akin to a situation where an organisation employs more people than required to carry on its mandated activities or the farm sector which chronically suffers from disguised unemployment. Such situations are remedied only by withdrawal of underutilised resources, which improves overall productivity. Many organisations have therefore recently launched VRS to get rid of excess people. A similar VRS is called for to reduce the number of stock exchanges in the country. The exit of a few exchanges, though appears harsh, seems to be the only economically sound alternative. As people availing of VRS can be gainfully employed somewhere else, the economic units exiting from the business of a stock exchange can take up some other activity. Luckily they have skill, expertise and infrastructure to take up any other activity in the financial market. They could consider moving into business of a non-exchange intermediary like stock-broking, investment banking, insurance agency or develop expertise to work in a niche area of an exchange like Canadian Venture Exchange.

(Contd. on Page 20)