Article

An Overview of the Securities Markets in India

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I. An Introduction

Transfer of resources from those with surplus resources to others who have a productive need for them is perhaps most efficiently achieved through the securities markets. Stated formally, securities markets provide channels for allocation of savings to investments and thereby decouple these two activities. As a result, the savers and investors are not constrained by their individual abilities, but by the economy's abilities to invest and save respectively, which inevitably enhances savings and investments in the economy. Further, securities market channels the savings to the most productive investments, which inevitably increases the rate of return on investments. The securities market, thus, fosters economic growth by augmenting the quantities of real savings and capital formation from any given level of national income, and also by raising the productivity of investments by improving allocation of investible funds. This paper presents an overview of the market design and market outcome in the organised market for 'securities' in India.

A. Market Segments

The securities market has two interdependent and inseparable segments, the new issues (primary market) and the stock (secondary) market. The primary market provides the channel for sale of new securities while the secondary market deals in securities previously issued. The price signals, which subsume all information about the issuer and his business including associated risk, generated in the secondary market, help the primary market in allocation of funds. The issuers of securities issue (create and sell) new securities in the primary market to raise funds for investment and/or to discharge some obligation. They do so either through public issues or private placement. It is a public issue if any body and everybody can subscribe for the securities. If the issue is made to select people, it is called private placement. In terms of the Companies Act, 1956, an issue becomes public if the offer or invitation to subscribe to securities is made to 50 persons or more. This means that an issue offered to less than 50 persons is a private placement. If the securities are issued exclusively to the existing shareholders, it is called 'rights' issue. It is a public issue if the offer is made to public at large. The securities are issued at face value or at a discount/premium. There are two major types of issuers who issue securities. The corporate entities issue mainly debt and equity instruments (shares, debentures, etc.), while the governments (central and state governments) issue debt securities (dated securities and treasury bills).

A variant of primary market allows the existing shareholders of a company to offer securities to public for subscription through an offer document. This is called offer for sale. This is route is generally used by government for disinvestment of its shares in PSUs. Another variant allows an (company or government) to buy back its securities. The companies buy back from the existing security holders on a proportionate basis through tender offer or from the open market through book building process or stock exchanges. Still another variant allows a person to acquire shares/

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voting rights in excess of a certain per cent through a public announcement offer to do so.

The secondary market enables participants who hold securities to adjust their holdings in response to changes in their assessment of risk and return. They also sell securities for cash to meet their liquidity needs. The secondary market has further two components, namely the over-the-counter (OTC) market and the exchange-traded market. OTC is different from the market place provided by the Over the Counter Exchange of India Limited. OTC markets are essentially informal markets where trades are negotiated. Most of the trades in government securities are in the OTC market. All the spot trades where securities are traded for immediate delivery and payment take place in the OTC market. The exchanges do not provide facility for spot trades in a strict sense. Closest to spot market is the cash market where settlement takes place after some time. Trades taking place over a trading cycle, *i.e.* a day under rolling settlement, are settled together after a certain time (currently 2 working days). All the 23 stock exchanges in the country provide facilities for trading of equities. The trades in corporate debt securities and retail trades in government securities take place in the cash equity segments of the leading exchanges. Trades executed on the leading exchange, National Stock Exchange of India Ltd. (NSE) are cleared and settled by a clearing corporation which provides novation and settlement guarantee. The trades on other exchanges are cleared and settled through clearing houses. The trades on all exchanges enjoy settlement guarantee. Over 99.99% of the trades settled by delivery are settled in demat form. Three exchanges, namely, NSE, OTCEI and BSE provide trading platform for government securities.

A variant of secondary market is the forward market, where securities are traded for future delivery and payment. Pure forward is out side the formal market. The versions of forward in the formal market are futures and options. In futures market, standardised securities are traded for future delivery and settlement. These futures can be on a basket of securities like an index or an individual security. In case of options, securities are traded for conditional future delivery. There are two types of options - a put option permits the buyer to sell a security to the writer of options at a predetermined price while a call option permits the buyer to purchase a security from the writer of the option at a predetermined price. These options can also be on individual stocks or a basket of stocks like index and can follow European or American style of settlement. Stock options follow American style of settlement where the options can be exercised at any time up to the expiration date, while the index options follow European style where options can be exercised only on the expiration date. Two exchanges, namely NSE and BSE provide trading of derivatives of securities.

B. Products and Participants

TABLE 1

MARKET PARTICIPANTS IN SECURITIES MARKETS AS ON MARCH 31, 2004

Sl. No.	Market Participants	Number
1	Securities Appellate Tribunal	1
2	Regulators (DEA, DCA, SEBI, RBI)	4
3	Ombudsman	0
4	Depositories	2
5	Depository Participants	431
6	Clearing Corporations (NSCCL, CCIL)	2
7	Stock Exchanges (Cash Segment)	23

Sl. No.	Market Participants	Number
8	Listed companies	9359
9	Stock Exchanges (Derivatives Segment)	2
10	Negotiated Dealing System (for Government securities)	1
11	Brokers (Cash Segment)	9368
12	Sub-brokers (Cash Segment)	12815
13	Derivative Brokers	829
14	Foreign Institutional Investors	540
15	Portfolio Managers	60
16	Custodians	11
17	Share Transfer Agents	78
18	Primary Dealers (Government securities)	18
19	Merchant Bankers	123
20	Bankers to an Issue	55
21	Debenture Trustees	34
22	Underwriters	47
23	Venture Capital Funds	45
24	Foreign Venture Capital Investors	9
25	Mutual Funds	37
26	Collective Investment Schemes	0
27	Credit Rating Agencies	4
28	Approved Intermediaries (Stock Lending Scheme)	3
29	Investor Associations (Registered)	7
30	Central Listing Authority	1
31	STP Service Providers	4
32	STP Central Hub	1
33	Self Regulatory Organisations (Registered)	0
34	Investors (Estimated)	20 million
35	Certification Agencies (NSE, BSE and AMFI)	3

Source : SEBI

The securities market, thus, has essentially three categories of participants, namely the issuers of securities, the investors in securities and the intermediaries and two categories of products, namely, the services of the intermediaries and the securities, including derivatives. The issuers and the investors are the consumers of services rendered by the intermediaries while the investors are consumers of securities issued by the issuers. Those who receive funds in exchange for securities and those who receive securities in exchange for funds often need the reassurance that it is safe to do so. This reassurance is provided by the law and custom, often enforced by the regulator. The regulator develops fair market practices and regulates the conduct of the issuers of securities and the intermediaries so as to protect the interests of the investors in securities. The regulator ensures a high standard of service from the intermediaries and supply of quality securities and non-manipulated demand for them in the market so that the issuers and the investors are able to undertake more and more transactions with ease, efficiency and security. In the Indian context, the regulators have an additional responsibility of developing the market and also the exclusive responsibility of protecting the interests of investors in securities.

II. Profile of the Securities Markets

The recent past, particularly since the establishment of SEBI in 1992, in many ways has been remarkable for securities market in India. It has grown exponentially as measured in terms of amount raised from the market, number of market participants, the number of listed stocks, market capitalisation, trading volumes and turnover on stock exchanges, and investor population. The figures relating to last financial year 2003-04 bear testimony to such growth. The year witnessed a net FII inflow of US $ 10 billion. Indian companies raised about Rs. 3,000 crore through euro issues. The government and the corporate sector together raised a sum of Rs. 2,67,660 crore from the market. Besides, government raised about Rs. 15,000 crore through offer for sale of shares of PSUs. The MFs mobilized net resources of about Rs. 48,000 crore, equivalent to about one fourth of incremental bank deposits. The assets at their disposal increased to Rs. 1,39,616 crore at the end of March 2004. The benchmark indices namely the SENSEX and S&P CNX NIFTY generated astounding returns of 83% and 81% respectively during 2003-04. The market capitalization reached a peak level of Rs. 14 trillion at the end of March 2004 indicating that the equity market is as big as the banking system. The exchanges reported a turnover of Rs. 16,20,931 crore in the cash segment and Rs. 21,42,920 crore in the derivative segment, while the subsidiary general ledger (SGL) reported a total turnover of Rs. 26,39,244 crore in government securities. Mumbai contributed less than 45% of total trades in cash and derivatives indicating the huge participation of retail investors. NSE and BSE are the 3rd and 5th largest exchanges respectively in the World. NSE is the largest exchange in stock futures. The open interest in derivatives at the end of March 2004 exceeded Rs. 7,000 crore. The exchanges have settlement guarantee funds which can meet the settlement obligations for 4 or 5 consecutive settlements even if all the trading members default in their obligations. The impact cost of Nifty for a trade of Rs. 0.5 crore reduced to 0.09% in 2004 reflecting substantial improvement in liquidity. The brokerage reduced to as low as 0.15%. The depositories were having a total of 58,32,552 investor accounts at the end of March 2004. The number of investor grievances received by SEBI has been sharply declining over the years. It was only 36,000 during 2003-04 as against 5 lakh in 1997-98. All these indicate robust health of the securities markets.

A. Dependence on Securities Markets

Three main sets of entities depend on securities market. While the corporates and governments raise resources from the securities market to meet their needs of investment and/or discharge some obligations, the households invest their savings in the securities. During 2003-04, corporate sector and governments together raised a total of Rs. 267,660 crore from the securities market, while the household sector invested Rs. 22,554 crore of their financial savings through the securities market. The central government and the state governments now-a-days finance about two third and one third of their fiscal deficits respectively through borrowings from the securities market. The corporate sector finances about one third of its external finance requirements through the securities market. The households invest about 6% of their financial savings in securities (Tables 2 and 4).

Corporate Sector: The early 1990s witnessed emergence of the securities market as a major source of finance for trade and industry. However, according to CMIE data, the share of capital market based instruments in resources raised externally increased to 53.2% in 1993-94, but declined thereafter to (-) 18% in 2002-03. This causes more concern when the share of external finance in the corporate finance declined from 74% in 1996-97 to 38% in 2002-03. The paper 'Finance for Industrial Growth' by Dr. Rakesh Mohan (RBI Bulletin, March

2004) indicates that capital market has virtually collapsed as a source of industrial finance as its share in industrial finance has declined from 1.9% of GDP at current prices during 1992-93 to 1996-97 to a meagre 0.2% during 1997-98 to 2001-02. Similarly the share of equity capital in the external finance of corporates declined from 20.5% during 1992-97 to 12.8% during 1997-2001.

Governments: Along with increase in fiscal deficits of the governments, the dependence on market borrowings to finance fiscal deficits has increased over the years. The state governments and the central government financed about 14% and 18% respectively of their fiscal deficit through market borrowings during 1990-91. In percentage terms, dependence of the state governments on market borrowings did not increase much till 2000-01. However, their dependence on market borrowing has been increasing since then to reach 28% during 2002-03 and 32% during 2003-04. In case of central government, it increased to 72% by 2002-03 and then declined to 65% during 2003-04.

Households: Household sector accounted for 86.5% of gross domestic savings during 2003-04; 46.8% of their savings were in financial assets. The share of financial savings of the household sector in securities (shares, debentures, public sector bonds, units of UTI and other MFs and government securities) is estimated to have gone down from 22.9% in 1991-92 to 5.4% in 2003-04.

TABLE 2

DEPENDENCE ON SECURITIES MARKET

Year	Share (%) of Securities Markets in			
	External Finance of Corporates	Fiscal Deficit of Central Government	Fiscal Deficit of State Governments	Financial Savings of Households
1990-91	19.35	17.9	13.6	14.4
1991-92	19.17	20.7	17.5	22.9
1992-93	33.38	9.2	16.8	17.2
1993-94	53.23	48.0	17.6	13.9
1994-95	44.99	35.2	14.7	12.0
1995-96	21.67	56.4	18.7	7.7
1996-97	21.83	30.0	17.5	7.0
1997-98	27.85	36.5	16.5	4.5
1998-99	27.49	60.9	14.1	4.1
1999-00	33.63	67.1	13.8	8.6
2000-01	30.17	61.8	14.0	5.8
2001-02	38.71	64.4	17.7	8.5
2002-03	-17.99	71.8	27.9	5.9
2003-04	NA	64.9	32.1	5.4

Source : CMIE & RBI

B. Investor Population

The Society for Capital Market Research and Development (SCMR&D) carries out periodical surveys of household investors to estimate the number of investors. Their first survey carried out in 1990 placed the total number of share owners at 90-100 lakh. Their second survey estimated the number of share owners at around 140-150 lakh as of mid-1993. Their latest survey estimates the number of shareowners at around 2 crore at 1997 end, after which it remained stagnant up to the end of 1990s. The bulk of increase in number of investors took place during 1991-94 and tapered off thereafter. 49% of the share owners at the end of 2000 had, for the first time, entered the market before the end of 1990, 44% entered during 1991-94, 6.3% during 1995-96 and 0.8% since 1997. The survey attributes such tapering off to persistent depression in the share market and investors' bad experience with many unscrupulous company promoters and managements.

According to the first SEBI-NCAER survey of Indian investors conducted in early 1999, an estimated 12.8 million, or 7.6% of all Indian households representing 19 million individuals had directly invested in equity shares and/or debentures as at the end of financial year 1998-99. The investor households increased at a compound growth rate of 22% between 1985-86 and 1998-99. About 35% of investor households became investors in equity shares prior to 1991, while 47% of the investors entered the market between 1991 and 1995 and 17% after 1995. More than 156 million or 92% of all Indian households were non-investor households who did not have any investments in equity/debentures. Low per capita income, apprehension of loss of capital, and economic insecurity, which are all inter-related factors, significantly influenced the investment attitude of the households. The lack of awareness about securities market and absence of a dependable infrastructure and distribution network coupled with aversion to risk inhibited non-investor households from investing in the securities market. An estimated 15 million (nearly 9%) of all households representing at least 23 million unit holders had invested in units of MFs.

According to the second SEBI-NCAER Survey conducted in late 2000, 13.1 million, or 7.4% of all Indian households, representing 21 million individuals directly invested in equity shares and or debentures during the financial year 2000-01. There were 11.8 million households representing 19 million unit holders who had invested in units of MFs in 2000-01.

According to the SEBI-NCAER survey, of the 48 million urban households, an estimated 8.8 million households, or 18%, representing approximately 13 million urban investors owned equity shares and/or debentures. Of the 121 million rural households, only about 4 million households, or 3%, representing nearly 6 million rural investors owned these instruments. The rural investor households have increased at a compound growth rate of 30% compared to 19% for urban investor households. The SCMR&D estimates that 15% of urban households and only 0.5-1.0% of semi-urban and rural households own shares. 4% of all households own shares.

An indirect, but very authentic, source of information about distribution of investors is the data base of beneficial accounts with the depositories. At the end March 2004, there were 5.2 million and 0.6 million beneficial accounts with the National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) respectively. The state-wise distribution of beneficial accounts with NSDL at the end of August 2004 is presented in Table 3.

TABLE 3

DISTRIBUTION OF BENEFICIAL ACCOUNTS AT NSDL AS ON 31ST AUGUST, 2004

State	No. of Demat Accounts	% to Total
Andaman & Nicobar	243	0.01
Andhra Pradesh	2,89,654	6.21
Arunachal Pradesh	70	0.00
Assam	18,225	0.39
Bihar	55,734	1.20
Chandigarh	11,077	0.24

State	No. of Demat Accounts	% to Total
Daman & Diu	73	0.00
Delhi	4,46,710	9.58
Goa	17,363	0.37
Gujarat	7,76,111	16.64
Haryana	85,245	1.83
Himachal Pradesh	8,126	0.17
Jammu & Kashmir	18,249	0.39
Karnataka	3,30,311	7.08
Kerala	1,12,147	2.41
Madhya Pradesh	1,12,114	2.40
Maharashtra	11,88,674	25.49
Manipur	164	0.00
Meghalaya	302	0.01
Mizoram	16	0.00
Nagaland	309	0.01
Orissa	29,468	0.63
Pondicherry	4,198	0.09
Punjab	97,209	2.08
Rajasthan	1,09,568	2.35
Tamil Nadu	3,46,923	7.44
Tripura	1,335	0.03
Uttar Pradesh	3,18,523	6.83
West Bengal	2,84,848	6.11
Total	46,62,989	100.00
Unclassified and Others	9,47,112	-
Grand Total	**56,10,101**	-

Source : NSDL

C. Primary Market

Corporate Securities : Average annual capital mobilisation by non-government public companies from the primary market, which used to be about Rs.70 crore in the 1960s and about Rs.90 crore in the 1970s, increased manifold during the 1980s, with the amount raised in 1990-91 being Rs. 4,312 crore. It received a further boost during the 1990s with the capital raised by these companies rising sharply to Rs. 26,417 crore in 1994-95. The capital raised, which used to be less than 1% of gross domestic savings during 1970s, increased to about 13% in 1992-93. It decreased to less than 1% in 2003-04. In real terms, the amount raised by non-government public companies during 2003-04 is about 31% of the amount raised about a decade back in 1990-91. The amount raised by these companies constituted about 85% of total disbursements by all-India FIs in 1992-93. It decreased to 10.1% in 2003-04. The market appears to have dried up since 1995-96 due to interplay of demand and supply side forces. However, 2003-04 has witnessed a reviving trend in resource mobilization by non-government public companies with the amount mobilised increasing from Rs. 1,878 crore during 2002-03 to Rs. 3,210 crore during 2003-04. Besides, approximately Rs. 15,000 was realized from offer for sale of PSU shares by the Government of India.

Many investors who were lured into the market during 1992-94 apparently adopted a very cautious approach because of their frustration with some of the issuers and intermediaries associated with the securities market. They withdrew from the market for a while, and looked for quality issues the availability of which declined due to stricter eligibility criteria for public issues imposed by SEBI and the general slowdown in the economic activity. Simultaneously, issuers shifted focus to other avenues for raising resources like private placement where compliance is much less and to overseas market which is cost effective. Available data (Table 4), although scanty, indicate that private placement has become a preferred means of raising resources by the corporate sector. It is believed in some circles that private placement has crowded out public issues. There are several inherent advantages of relying on private placement route for raising resources. While it is a cost and time effective method of raising funds and can be structured to meet the needs of the entrepreneurs, it does not require detailed compliance with formalities as required in public or rights issues. However, recent SEBI guidelines reduced the attractiveness of private placement and the amount raised through this route declined during 2003-04 when it accounted for about 68% of total resources mobilised through domestic issues by the corporate sector as against 89% in the preceding year. Simultaneously, availability of good public issues (particularly PSU disinvestments), with the improved perception about regulatory effectiveness (The Indian Household Investor's Survey 2004 by SCMRD has found that there has been great improvement recently in the general public perception about capital market regulation in India), attracted the attention of investors to public issues. They seem to have returned to the primary market in 2003-04 as revealed by huge oversubscription to offer for sale.

The amount raised by the corporate sector through public and private issues, as presented in Table 4, is quite impressive. However, most of the amount is being raised through private placement of debt securities. According to prime database, the share of debt securities in total resource mobilisation of the corporate sector was in the range 95-99% during 1997-98 to 2002-03. It was 75% during 2003-04. It may be noted that debt capital is temporary capital and has to be repaid on maturity. Hence most of the capital being raised by the corporate sector is not going to be available to them permanently. The capital which is of real consequence is equity capital which is not a significant source of finance for the corporate sector. What would, therefore, be relevant is the net amount raised through debt securities, *i.e.* the amount raised minus the amount repaid during the year. If such data were available, the amount raised would not look as impressive. Since such data are not available, we are having an inflated impression about the amount raised from the securities market.

Despite massive modernization of the market and best market practices, government/public sector continues to dominate the securities market. Out of the Rs. 267,660 crore raised during 2003-04, Rs. 198,157 was raised by the government. Government raised another Rs.15,000 crore through offer for sale. Public sector accounted for 80%. The public sector accounted for 75% (Rs. 44,349 crore) of total amount raised through private placement during 2003-2004. The government/public sector not only raised huge resources from the securities markets, they also invested heavily through the securities market as subscribers to government securities and private placements.

A relatively large proportion of shares in Indian companies are held by promoters. This accounts for over 55% in respect of companies listed on NSE. About 16% shares are held by institutional investors while Indian public hold only 18%. This is to be seen in the context of the Securities Contracts (Regulation) Rules, 1957 which requires a company desirous of getting its securities listed on a stock exchange to offer at least 25% securities to public for subscription.

At the end of March 2004, 45 venture capital funds had raised Rs. 1,750 crore from domestic and foreign investors and had invested Rs. 1,415 crore in 409 companies. During 2003-04, these funds obtained 56 exits.

Indian market is getting integrated with the global market though in a limited way through euro issues. Since 1992, when they were permitted access, Indian companies have raised over Rs. 40,000 crore through ADRs/GDRs and ECBs. By the end of March 2004, 540 FIIs were registered with SEBI. They had net cumulative investments over of US $ 25.74 billion by the end of March 2004.

The market is getting institutionalised as investors prefer MFs as their investment vehicle, thanks to the evolution of a regulatory framework for MFs, tax concessions offered by government and preference of investors for passive investing. The net collections by MFs picked up during 1990s and increased to Rs. 19,953 crore during 1999-2000 (Table 4). This declined to Rs. 4,583 crore during 2002-03 only to rise to Rs. 47,684 crore during 2003-04. Starting with an asset base of Rs. 25 crore in 1964, the total assets under management of MFs at the end of March 2004 were Rs. 139,616 crore. Though the MF industry was opened up to private sector only in the 1990s, the private sector MFs account for three fourth of the assets under management.

The first SEBI-NCAER Survey (1998-99) had reported 23 million unit holders. The second survey (2000) reported 21 million unit holders. These numbers compared well with the number of investors owning equity and debentures. However, according to SCMRD, (The India's Stock Market and Household Investors Survey, 2004) the Indian MF schemes, as a class, have remained far behind direct holding of equity shares. This difference in the findings is apparently accounted for by the time of the surveys. The Unit 64 of the UTI, which had huge investor accounts, has almost disappeared in the recent years.

According to SEBI, there were a total of 1.6 crore investors accounts (it is likely that there may be more than one folio of an investor with a MF and an investor may have folios with more than one MF) holding units of Rs. 79,601 crore as on 31st March, 2003 (Table 5A). Out of this, 1.56 crore were individual investors accounts, which held units of Rs. 32,691 crore. Individual investor accounts constituted 97.42% of the total number of accounts and 41.07% of the total net assets. Corporates and institutions, who formed only 2.04% of the total number of investors accounts in the MF industry, contributed a sizeable amount of Rs.45,470 crore which was 57.12% of the total net assets in the mutual funds industry. The NRIs/OCBs and FIIs constituted a very small percentage of investors accounts (0.54%) and contributed Rs.1440.18 crore (1.81%) of net assets. Though these detailed data for subsequent years are not available, available data (Table 5B) indicate that the number of investors has been declining. The number of unit holders declined to 1.46 crore at the end of March 2004 and 1.32 crore at the end of January 2005. This is in consonance with the findings of the SCMRD Survey.

Government Securities: The primary issues of the Central Government have increased many-fold during the decade of 1990s from Rs. 8,989 crore in 1990-91 to Rs. 147,636 crore in 2003-04 (Table 4). The issues by state governments increased by about twenty times from Rs. 2,569 crore to Rs. 50,521 crore during the same period. The yield on government securities has been declining over the years due to soft interest rates, comfortable liquidity, and RBI undertaking substantial private placement. The weighted average yield on central government securities declined to 5.71% in 2003-04 from a peak of 13.75% in 1995-96. Similarly the weighted average yield on state government securities declined to 6.13% in 2003-04 from a peak of 14% in 1995-96. There is a conscious effort to elongate the maturity profile of the government securities by issuing longer dated securities. The average maturity of securities issued in 2003-04 increased to 14.94 years, with the highest tenor being 30 years.

TABLE 4

RESOURCE MOBILISATION FROM THE PRIMARY MARKET

(Rs. crore)

Issues	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Corporate Securities	**14,219**	**16,366**	**23,537**	**44,498**	**48,084**	**36,689**	**37,147**	**42,125**	**60,192**	**72,450**	**78,396**	**74,330**	**75,241**	69,503
Domestic Issues	14,219	16,366	23,286	37,044	41,974	36,193	33,872	37,738	59,044	68,963	74,199	71,988	71,815	66,405
Non-Govt. Public Co.	4,312	6,193	19,803	19,330	26,417	16,075	10,410	3,138	5,013	5,153	4,890	5,692	1,878	3,210
PSU Bonds	5,663	5,710	1,062	5,586	3,070	2,292	3,394	2,982	-	-	-	-	-	
Govt. Companies	-	-	430	819	888	1,000	650	43	-	-	-	350	-	100
Banks & FIs	-	-	356	3,843	425	3,465	4,352	1,476	4,352	2,551	1,472	1,070	2,989	3,880
Private Placement	4,244	4,463	1,635	7,466	11,174	13,361	15,066	30,099	49,679	61,259	67,836	64,876	66,948	59,215
Euro Issues	-	-	702	7,898	6,743	1,297	5,594	4,009	1,148	3,487	4,197	2,342	3,426	3,098
Government Securities	**11,558**	**12,284**	**17,690**	**54,533**	**43,231**	**46,783**	**42,688**	**67,386**	**106,067**	**113,336**	**128,483**	**152,508**	**181,979**	**1,98,157**
Central Government	8,989	8,919	13,885	50,388	38,108	40,509	36,152	59,637	93,953	99,630	115,183	133,801	151,126	1,47,636
State Governments	2,569	3,364	3,805	4,145	5,123	6,274	6,536	7,749	12,114	13,706	13,300	18,707	30,853	50,521
Total	**25,777**	**28,650**	**41,227**	**99,031**	**91,315**	**83,472**	**79,835**	**109,511**	**166,259**	**185,786**	**206,879**	**226,838**	**257,220**	**2,67,660**
Mutual Funds	**7508**	**11,253**	**13,021**	**11,244**	**12,274**	**-5,833**	**-2,036**	**4,064**	**3,611**	**19,953**	**11,135**	**7,137**	**4,583**	**47,684**

Source : RBI

TABLE 5A

UNIT HOLDING PATTERN OF MUTUAL FUNDS INDUSTRY AS ON 31ST MARCH, 2003

Category	Number of Investors Accounts	% to Total Investors Accounts	Net Asset Value (Rs. crore)	% to Total NAV
Individuals	15,557,506	97.42	32,691.12	41.07
NRIs/OCBs	84,311	0.53	878.51	1.10
FIIs	2,058	0.01	561.67	0.71
Corporates/Institutions/Others	324,979	2.04	45,469.53	57.12
Total	**15,968,854**	**100.00**	**79,600.83**	**100.00**

Source : SEBI

TABLE 5B

ASSETS UNDER MANAGEMENT OF MFs AS ON 31ST MARCH, 2004

(Rs. crore)

Scheme	Open Ended		Close ended		Total	
	Amount	No. of Investors	Amount	No. of Investors	Amount	No. of Investors
Income	60,854	3670127	1,670	800	62,524	3670927
Growth	22,154	5903361	1,459	826895	23,613	6730256
Balanced	3,296	2715284	784	76942	4,080	2792226
Liquid	41,704	48889	-	0	41,704	48889
Gilt	6,026	97714	-	0	6,026	97714
ELSS	489	338427	1,180	964885	1,669	1303312
Total	**1,34,523**	**1,27,73,802**	**5,093**	**18,69,522**	**1,39,616**	**1,46,43,324**

Source : AMFI & SEBI

D. Secondary Market

Corporate Securities: Select indicators in the secondary market are presented in Table 6. The number of stock exchanges increased from 11 in 1990 to 23 now. All the exchanges are fully computerised and offer 100% on-line trading. 9,359 companies were available for trading on stock exchanges at the end of March 2004. The trading platform of the stock exchanges was accessible to 9,368 brokers/829 derivative brokers and 12815 sub-brokers from over 400 cities on the same date.

TABLE 6

SECONDARY MARKET - SELECT INDICATORS

(Amount in Rs. crore)

At the End of Financial Year	Cash Segments of Stock Exchanges							SGL Turnover	Derivatives Turnover
	No. of Brokers	No. of Listed Companies	S&P CNX Nifty	Market Cap	Market Cap Ratio (%)	Turnover	Turnover Ratio (%)		
1990-91	—	6,229	366.45	110,279	20.6	—	—	—	—
1991-92	—	6,480	1261.65	354,106	57.4	—	—	—	—
1992-93	—	6,925	660.51	228,780	32.4	—	—	—	—
1993-94	—	7,811	1177.11	400,077	45.6	203,703	50.9	—	—
1994-95	6,711	9,077	990.24	473,349	45.6	162,905	34.4	50,612	—
1995-96	8,476	9,100	985.30	572,257	47.0	227,368	39.7	127,179	—
1996-97	8,867	9,890	968.85	488,332	34.6	646,116	132.3	122,942	—
1997-98	9,005	9,833	1116.65	589,816	37.7	908,681	154.1	185,708	—
1998-99	9,069	9,877	1078.05	574,064	34.1	1,023,382	178.3	227,228	—
1999-00	9,192	9,871	1528.45	1,146,200	59.2	2,067,031	180.34	539,255	—
2000-01	9,782	9,954	1148.20	6,42,400	30.7	2,880,990	448.47	698,146	4,038
2001-02	9,687	9,644	1129.55	743,201	32.6	895,817	120.54	1,573,874	103,847
2002-03	9,519	9,413	978.20	725,871	29.4	968,954	133.48	1,941,673	442,343
2003-04	9,368	9,359	1771.90	1,377,612	52.3	1,620,931	117.66	2,639,244	2,142,920

Note : Turnover figures for the respective year; — Information Not Available/there was no trading, Market capitalisation up to 1998-99 mean all India market capitalisation and from 1999-00 mean market capitalisation of securities listed on NSE and BSE only.

Source : RBI, SEBI, NSE, & BSE.

The market capitalisation grew ten fold between 1990-91 and 1999-2000. It declined thereafter following a major market misconduct. It, however picked up in 2003-04 to Rs. 13,77,612 crore at the end of March 2004. The market capitalisation ratio, which indicates the size of the market, increased sharply to 60% by March 2000. It, however, declined to 52% by end March 2004. Traditionally, manufacturing companies and financial services sector accounted for a major share in market capitalisation. However, in the recent past, the importance of these traditional sectors has declined and new sectors like, information technology, pharmaceuticals and fast moving consumer goods have picked up.

The trading volumes on exchanges have been witnessing phenomenal growth during the 1990s. The average daily turnover grew from about Rs.150 crore in 1990 to Rs. 12,000 crore in 2000, peaking at over Rs. 20,000 crore. One-sided turnover on all stock exchanges exceeded Rs. 10,00,000 crore during 1998-99, Rs. 20,00,000 crore during 1999-2000 and approached Rs. 30,00,000 crore during 2000-01. However, it declined substantially to Rs. 968,954 crore in 2002-03 to almost double in the next year to Rs. 1,620,931 crore. The turnover ratio, which reflects the volume of trading in relation to the size of the market, has been increasing by leaps and bounds after the advent of screen based trading system by the NSE. The turnover ratio for the year 2000-01 increased to 448 but fell substantially to 118 during 2003-04. The average trade size in the equity segments of the Exchanges was about Rs. 27,000 during 2003-04.

The sectoral distribution of turnover has undergone significant change over last few years. The share of manufacturing companies in turnover of top '50' companies, which was nearly 80% in 1995-96, declined sharply to about 2% in 2002-03. During the same period the share of IT companies in turnover increased sharply from *nil* in 1995-96 to 75% in 2002-03. The year 2003-04, however, presents a balanced composition where manufacturing and IT sectors have shares of 38% and 31% respectively.

Trades concentrate on a few exchanges/securities/brokers. The leading stock exchange, NSE, alone accounted for 68% of total turnover in the cash segment of stock exchanges in 2003-04. Top two exchanges accounted for 99% of total turnover, while over a dozen exchanges reported *nil* turnover during the said year. Top '5' and '100' securities accounted for 31% and 91% of turnover respectively during 2003-04 on NSE. During the same period, top '5' and '100' brokers accounted for 12% and 61% of total turnover respectively. The institutional investors accounted for 10.8% of turnover in cash segments of exchanges during 2004.

The trading is concentrated among a limited number of stocks and is very thin in a large number of stocks. Many securities listed on stock exchanges are not traded at all and trading in many other securities is negligible. On an average, about 30% companies on BSE were traded every month during 2003-04. Only 75% of companies traded on BSE were traded for more than 100 days. Trading took place for less than 100 days in case of 25% of companies traded at BSE during the year, and for less than 10 days in case of 6% of companies traded. On an average 96% of companies available for trading at NSE were traded every month during 2003-04. Over 92% of companies traded on NSE were traded for more than 100 days during 2003-04. The historical reasons explain most of the difference in the liquidity on these two exchanges. There was no trade in several companies listed on a number of small (erstwhile regional) stock exchanges.

The two most popular indices used in the market are SENSEX and S&P CNX NIFTY. The movement of the market in terms of the latter has been discussed here as it is maintained by IISL, an entity exclusively engaged in this work. In the very first year of liberalisation, *i.e.* 1991-92, the S&P CNX NIFTY recorded a growth of 267%, followed by sharp decline of 47% in the next year as certain irregularities in securities transactions were noticed. Since then, the market experienced a roller coaster ride till 1999-2000 when the Nifty firmed up by 42% due to perception about the strength of the government and its commitment towards second generation reforms, improved macroeconomic parameters and better corporate results. The trend got reversed during 2000-01, which witnessed large sell-offs in new economy stocks in global markets and on domestic bourses, deceleration in the growth of the domestic economy, and market turbulence following allegations of large scale irregularities in securities transactions. The trend precipitated further during 2001-02 with introduction of rolling settlement and withdrawal of all deferral products in July 2002, suspension of repurchase facility under UTI's US-64 scheme, terrorist attack on World Trade Centre in September 2002, etc. It reversed in the year 2003-04 following all-round development and robust fundamentals in the economy coupled with *feel good* factor and huge FII inflows, when NIFTY firmed up by 81%. The second tier stocks represented by NIFTY Junior moved even sharper at 169%. The movement of S&P CNX Nifty since January 1990 is presented in Chart 1.

Derivatives Market: Derivatives trading commenced in India in June 2000. The exchange traded derivatives witnessed a volume of Rs. 21,42,920 crore with about 6 crore contracts during 2003-04 as against Rs. 442,343 crore during the 2002-03. While NSE accounted for about 99.4% of total turnover, BSE accounted for the balance in 2003-04. Mumbai contributed for about 48% of total turnover indicating the all India participation in the derivatives market. The market witnessed higher volumes from June 2001 with introduction of index options and still higher volumes with the introduction of stock options in July 2001. There was a spurt in volumes in November 2001 when stock futures were introduced. Both in terms of number of contracts traded and notional turnover in stock futures, NSE tops the list of world's derivative exchanges. It is observed that futures are more popular than options; contracts on securities are more popular than those on indices; call options are more popular than put options; and near month contracts are more popular than not-so-near month contracts. The index futures, stock futures, index options and stock options accounted for 26%, 62%, 2% and 10% respectively of total turnover during 2003-04. The interest rate futures, which witnessed trades only during June - August, 2003, reported an insignificant volume of Rs. 202 crore during 2003-04. Besides, there is a huge OTC market for interest rate derivatives (FRAs/IRSs). The institutional investors accounted for 3.3% of derivatives turnover in 2004.

Chart 1: Movement of S&P CNX Nifty

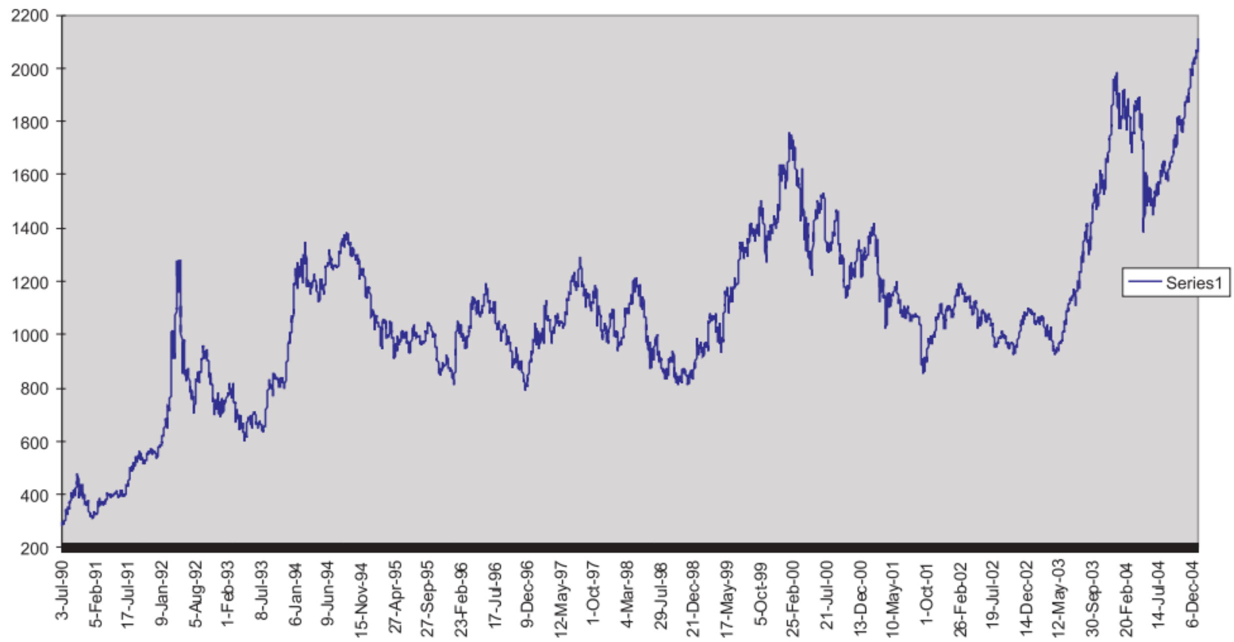


TABLE 7

GROWTH AND DISTRIBUTION OF TURNOVER ON STOCK EXCHANGES

(Rs. crore)

Stock Exchange	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
NSE	8,586	79,155	337,681	481,456	519,943	1,143,267	1,770,457	1,562,283	2,126,545	4,546,279
Mumbai	67,749	50,064	124,190	207,113	310,750	686,428	1,001,704	309,474	321,160	524,022
Uttar Pradesh	7,923	12,373	16,070	15,209	18,429	23,876	25,112	13,349	14,763	11,751
Ahmedabad	12,452	20,626	41,065	31,117	29,928	37,566	54,036	14,644	15,459	4,545
Calcutta	52,872	62,149	105,481	178,779	172,818	357,167	355,035	27,075	6,523	1,928
Madras	6,117	3,259	3,912	2,458	739	500	218	48	76	101
OTCEI	365	224	219	283	198	3,603	126	4	0	16
Delhi	9,144	10,083	48,992	67,936	50,651	94,528	82,997	5,526	11	3
Hyderabad	1,160	1,107	480	1,861	1,270	1,236	978	41	5	2
Bangalore	712	897	4,389	8,637	7,749	1,115	600	70	0	0
ICSE	NA	NA	NA	NA	NA	274	237	70	53	0
Magadh	797	1,629	2,755	323	1	9	2	0	0	0
Bhubaneshwar	303	211	231	203	74	68	0	0	0	0
Cochin	614	287	152	164	96	66	26	2	0	0
Coimbatore	3,192	5,007	4,798	4,274	769	78	0	0	0	0
Gauhati	285	616	484	120	52	0	0	0	0	0
Jaipur	879	1,048	1,519	453	63	2	0	0	0	0
Ludhiana	4,975	4,849	5,274	8,316	6,070	6,872	9,154	964	0	0
Madhya Pradesh	118	202	5	1	1	10	2	16	0	0
Mangalore	62	39	380	314	11	0	0	0	0	0
Pune	3,672	7,096	10,084	8,624	4,827	6,090	6,171	1,171	0	0
SKSE	329	452	395	17	0	0	0	0	0	0
Vadodara	3,855	2,519	4,344	4,577	1,749	159	2	20	3	0
Total	**186,161**	**263,892**	**712,901**	**1,022,235**	**1,126,187**	**2,362,913**	**3,306,856**	**1,934,757**	**2,484,596**	**5,088,647**
NSE+BSE	**76,335**	**129,219**	**461,871**	**688,569**	**830,693**	**1,829,695**	**2,772,161**	**1,871,757**	**2,447,704**	**5,070,302**
Total (Except NSE + BSE)	**109,826**	**134,674**	**251,030**	**333,666**	**295,494**	**533,219**	**534,695**	**63,000**	**36,892**	**18,345**

Source : Annual Reports of SEBI and the Exchanges for various years.

Note : The turnover means total value of transactions of securities in all the market segments of an Exchange.

Turnover on Stock Exchanges : The relative importance of various stock exchanges in the market has undergone dramatic change since the advent of NSE. The increase in turnover took place mostly at the big exchanges and it was partly at the cost of small exchanges that failed to keep pace with the changes. NSE is the market leader with over 89% of total turnover (volumes on all segments) in 2003-04. Top 2 stock exchanges together accounted for 99.64% of turnover, while about a dozen exchanges reported *nil* turnover during the year. The big exchanges now report higher turnover from its trading terminals in the home turf of most of the corresponding local exchanges. The growth and distribution of turnover is presented in Table 7.

Dematerialisation of Securities: In order to get rid of ills of paper based securities and promote dematerialisation of securities, though investors have a right to hold securities in any form, the regulator introduced some kind of compulsion through trading and settlement. At the end of

March 2004, there are two fully operational depositories with about 400 depository participants offering depository services from over 2000 locations. The growth of dematerialization is considered as a success story in Indian securities market, as may be seen from the Table 8. As stated earlier, there are about 6 million beneficial accounts with these depositories.

TABLE 8

GROWTH OF DEMATERIALISATION

At the end of the period	NSDL					CDSL				
	DPs	DP Locations	Mkt. Cap.* (Rs. crore)	Demat Qty. (crore)	No. of Active Investor Accounts (lakh)	DPs	DP Locations	Mkt. Cap. # (Rs. crore)	Demat Qty. (crore)	No. of Investor Accounts (lakh)
1996-97	24	24	90818	2	NA	NA	NA	NA	NA	NA
1997-98	49	200	288347	176	NA	NA	NA	NA	NA	NA
1998-99	84	750	396551	711	NA	NA	NA	NA	NA	NA
1999-00	124	1425	765875	1550	NA	NA	NA	NA	NA	NA
2000-01	186	1896	555376	3721	NA	137	264	10906	192	0.81
2001-02	212	1648	615001	5167	37.18	148	346	24337	482	1.28
2002-03	213	1718	600539	6876	37.96	189	414	36164	821	2.47
2003-04	214	1719	1107084	8369	52.04	211	441	106443	1401	6.29

** Market capitalization of companies that have joined NSDL.*

 # Market capitalization of securities in CDSL.

Source : NSDL and CDSL

Government Securities : The aggregate turnover in central and state government dated securities, including treasury bills, through SGL transactions increased 50 times between 1994-95 and 2003-04. During 2003-2004 it reached a level of Rs.26,39,244 crore, higher than the trading volumes in cash or derivative segments of all the exchanges in the country, reflecting deepening of the market. The share of outright transactions in government securities increased from 23.2% in 1995-96 to 64% in 2003-04. The share of repo transactions declined correspondingly from 76.8% in 1995-96 to 36% in 2003-04. The share of dated securities in the turnover of government securities increased from 69% in 1996-97 to 93% in 2003-04. The T-bills accounted for the remaining SGL turnover. Contrary to trades in corporate securities, these are generally high value transactions. The average trade size in outright transactions and repo transactions during 2003-04 were Rs. 6.5 crore and Rs. 45 crore respectively. 94% of trades in government securities were settled through CCIL during 2003-04, while the remaining were settled directly at RBI.

III. Market Design

A. Reforms in Securities Markets

Given the importance of securities market in the economy and the need of the economy to grow at the projected rate of 8% per annum, it is not surprising that the authorities have been promoting the securities market as an engine of growth to provide an alternative but efficient means of resource mobilisation. They have effected fundamental institutional changes in the market design in the last decade resulting in drastic reduction in transaction costs and significant improvements in efficiency, transparency and safety. They have ushered in as much as ten special legislative interventions during the last decade to support the reforms in the securities market, which is the most reformed sector in the Indian economy today. It acquired the first ever autonomous regulator (which in course time became the model regulator) in India. Not only is it the first in many respects in the Indian economy and a marvel in the financial system in the country, but a bench mark for many securities markets abroad also. It gave birth to the first ever demutualised stock exchange in the World. It used satellite based communications technology for securities transactions for the first time. It started real time on-line position monitoring of brokers. It is the first to introduce the straight through processing in securities transactions. It is the first major market to have implemented T+2 rolling settlement. In many areas such as biometric based identification of market participants, disclosure and accounting standards, corporate governance rating etc. the Indian securities market is either the first or the best in the World. These have yielded considerable benefits to the market as evidenced by the growth in the number of market participants, growth in the volumes of securities transactions, increasing globalization of the Indian market, reduction in transaction costs and the level of compliance with international standards. All these have earned for the Indian securities market a place of respect amongst the comity of securities markets in the World.

In order to improve the quality of the market, that is, to improve market efficiency, enhance transparency, prevent unfair trade practices and bring the Indian market up to international standards, a package of reforms consisting of measures to liberalise, regulate and develop the securities market is being implemented since early 1990s. The practice of allocation of resources among different competing entities as well as its terms by a central authority was discontinued. The issuers complying with the eligibility criteria were allowed freedom to issue the securities at market determined rates. The market shifted formally and completely from merit based regulation to disclosure based regulation. Domestic issuers/investors were allowed choice to raise resources/invest within/across the borders. Overseas issuers and investors were granted access to Indian market. The secondary market overcame the geographical barriers by moving to screen based trading. The trading system is now accessed through 10,000 trading terminals spread across more than 400 cities/towns in the Indian sub-continent and also through the Internet and hand held mobile devices from all over the world. All kinds of securities - debt and equity, government and corporate - are traded on exchanges side by side. Trades enjoyed counter-party guarantee. The trading cycle shortened to a day and trades are settled within 2 working days, while all deferral products were banned. Physical security certificates almost disappeared. The settlement system complies with the CPSS-IOSCO recommendations and G30 recommendations in letter and spirit. A variety of derivatives were permitted. Corporate governance practices improved significantly. The reforms has been so fast paced that the market changes beyond recognition in every couple years. As a result of these reforms, the market design has changed drastically for better, as may be seen from Table 9.

TABLE 9

ELEMENTS OF MARKET DESIGN IN INDIAN SECURITIES MARKET, 1992 AND 2004

Features	1992	2004
Regulator	No Specific Regulator, but Central Government oversight	A specialized regulator for securities market (SEBI) vested with powers to protect investors' interest and to develop and regulate securities market. SROs strengthened
Securities	Limited number of traditional instruments	Expanded to cover government securities, units of CISs and MFs, derivatives of securities, security receipts, etc.
Form of Securities	Physical	Dematerialised

Features	1992	2004
Regulatory Approach	Merit based regulation	Disclosure based regulation
Intermediaries	Some of the intermediaries (stock brokers, authorized clerks and remisiers) regulated by the SROs	A variety of specialized intermediaries emerged. They are registered and regulated by SEBI (also by SROs). They as well as their employees are required to follow a code of conduct and are subject to a number of compliances. All participants are identified by a unique identification number
Access to Market	Granted by Central Government	Eligible issuers access the market after complying with the issue requirements
Disclosure	Voluntary, vague, scanty and non-standardised	Standardised, systematic and at par with international standards. A dedicated web site for corporate disclosures
Pricing of Securities	Determined by Central Government	Determined by market, either by the issuer through fixed price or by the investors through book building
Access to International Market	No access	Corporates allowed to issue ADRs/GDRs and raise ECBs. ADRs/GDRs have two way fungibilty. FIIs allowed trade in Indian market. MFs also allowed to invest overseas
Corporate Compliance	Very little emphasis	Emphasis on disclosures, accounting standards and corporate governance
Mutual Funds	Restricted to public sector	Open to private sector and emergence of a variety of funds and schemes
Trading Mechanism	Open outcry, Available at the trading rings of the exchanges, Opaque, Auction/negotiated deals	Screen based trading system, Orders are matched on price-time priority, Transparent, Trading platform accessible from all over country
Aggregation of order flow	Fragmented market through geographical distance. Order flow unobserved.	Order flow observed. The exchanges have open electronic consolidated limit order book (OECLOB)
Anonymity in Trading	Absent	Complete
Settlement Cycle	14 day account period settlement, not adhered to always	Rolling settlement on T+2 basis
Counterparty Risk	Present	Absent
Form of Settlement	Physical	Mostly Electronic
Basis of Settlement	Bilateral Netting	Multilateral Netting
Transfer of Securities	Cumbersome. Transfer by endorsement on security and registration by issuer	Securities are freely transferable. Transfers are recorded electronically in book entry form by depositories.
Risk Management	No focus on risk management	Comprehensive risk management system encompassing capital adequacy, limits on exposure and turnover, VaR based margining, client level gross margining, on-line position monitoring etc.
Derivatives Trading	Absent	A wide array of exchange traded derivatives such as Futures and Options on indices and select securities and Futures on Interest Rate available
Research	Very little	Many market participants have full fledged research departments. Some of them have schemes/initiatives to promote research
Government securities	Market outcomes such as quantity and price exogenously determined	Issue at market related rates, Product bouquet widened, Negotiated Dealing System operationalised, Retail trading permitted on exchanges, DVP introduced for settlement of transactions, Clearing corporation for central counter party

B. Primary Market

Corporate Securities: The issue of capital to public by Indian companies is governed by the Disclosure and Investor Protection (DIP) Guidelines of SEBI. The guidelines provide norms relating to eligibility for companies issuing securities, pricing of issues, listing and disclosure requirements, lock-in period for promoters' contribution, contents of offer documents, pre and post issue obligations, etc.

Eligibility: An unlisted company can make public issue of equity shares or any other security convertible into equity shares, on fixed price basis or on book building basis, provided (*i*) it has net tangible assets of at least Rs. 3 crore in each of the preceding 3 years, (*ii*) it has a pre-issue net worth of not less than Rs. 1 crore in each of the preceding 3 years, (*iii*) it has a track record of distributable profits for at least 3 out of the preceding 5 years, and (*iv*) the aggregate size of the issues made during the same financial year and the proposed issue does not exceed five times its pre-issue net worth. Further, an unlisted company can not make allotment if the number of prospective allottees is less than 1000. A listed company can access market in a financial year to raise resources up to five times of its pre-issue net worth. If the company, listed or unlisted, does not meet the above criteria, the issue can be made only if it satisfies two conditions: (*a*) the issue is made through book building with minimum offer of 50% of the issue size to 'Qualified Institutional Buyers' or the project has participation of at least 15% from FIs and 10% is allotted to QIBs; and (*b*) the minimum post issue face value of capital of the company is Rs. 10 crore or there is market making for at least 2 years from the date of listing. These provisions do not apply to a banking company, an infrastructure company and rights issue by a listed company. Infrastructure companies are exempt from the eligibility norms if their project has been appraised by a public financial institution and not less than 5% of the project cost is financed by any of the institutions, jointly or severally, by way of loan and/or subscription to equity. Similarly, the eligibility and pricing requirements do not apply to a company making IPO of equity shares and proposing to list them on OTCEI, if it complies with OTCEI requirements of listing.

Public and rights issues of debt instruments, irrespective of their maturities or conversion period, require credit rating of not less than investment grade from two credit rating agencies. All the credit ratings obtained from different agencies for the issue as well as all the ratings obtained for any listed security during last 3 years need to be disclosed in the offer document. The company can not make allotment if the proposed allottees are less than 50. Before issuing offer document to public for subscription of debentures, the company must appoint a debenture trustee. For redemption of debentures issued, the company must also create a debenture redemption reserve. Thus the quality of the issue is demonstrated by track record/appraisal by financial institutions/credit rating/subscription by QIBs.

Pricing: An eligible company is free to make public/rights issue of securities of any denomination and at any price. It can issue the equity shares in the firm allotment category at a different price than the price at which net offer to public is made, provided the former price is higher than the latter. It has option to determine the price and justify the same in prospectus or may allow investors to determine the price through book building. In the former case, the price is known in advance to investor and the demand is known at the close of the issue. In case of public issue through book building, demand can be known at any time when the issue is open but price is known at the close of issue. The book building has become very popular now-a-days. Almost all the equity offering during 2004 were made through book building. A company making a public offer of equity shares can avail of green shoe option for stabilizing post-listing price of its shares.

An issuer company proposing to issue capital through book building has two options *viz.,* 75% book building route and 100% book building route. In case 100% book building route is adopted, not more than 50% of net offer to public can be allocated to QIBs, not less than 25% to retail individual investors (an investor who applies or bids for securities of or for a value of not more than Rs. 50,000) and not less than 25% to non-institutional investors. In case 75% of net public offer is made through book building, in the book built portion and not more than 50% of the net offer can be allocated to QIBs. The balance 25% of the net offer to public, offered at a price determined through book building, is available to retail individual investors who have either not participated in book building or have not received any allocation in the book built portion. In case of under subscription for any category, the undersubscribed portion can be allocated to the bidders in other categories. The underwriting is compulsory if the issue is made through book building. A company can use the on-line system of exchanges for making public issues (called E-IPO). In such cases, the specified brokers collect application and application moneys from their clients and place orders with the company to buy its securities.

An eligible company is free to make public or rights issue of equity shares in any denomination. However, in case of IPO by an unlisted company, the face value can be less than Rs. 10 (but not less than Re.1) if the issue price is Rs. 500 or more. If the issue price is less than Rs. 500, the face value shall be Rs. 10.

Promoters' Contribution: The promoters' contribution in case of public issues by unlisted companies and promoters' shareholding in case of 'offers for sale' should not be less than 20% of the post issue capital. In case of public issues by listed companies, promoters should contribute to the extent of 20% of the proposed issue or should ensure post-issue holding to the extent of 20% of the post-issue capital. The promoters should bring in the full amount of the promoters' contribution including premium at least one day prior to the issue opening date. The minimum promoters' contribution is locked in for a period of 3 years. The contribution in excess of minimum contribution is locked in for one year. The requirement of promoter contribution does not apply in case of public issue of securities by a company which is listed on a stock exchange for at least 3 years and has a track record of dividend payment for at least 3 preceding years.

A listed company can make preferential issue of equity shares or other instruments convertible to equity to any select group of persons on private placement basis. Such shares can be issued at a price not less than the higher of the average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during preceding 6 months or the average of same during the last two weeks. The instruments allotted to promoters on preferential basis are locked in for 3 years. The instruments allotted to others or promoters in excess of 20% of capital of the company are locked in for one year.

The lead merchant banker discharges most of the pre-issue and post-issue obligations. He satisfies himself about all aspects of the offering and adequacy of the disclosures in the offer document. He issues a due diligence certificate stating that he has examined the prospectus, he finds it in order and that it brings out all the facts and does not contain anything wrong or misleading. He also takes care of allotment, refund and despatch of certificates.

The admission to a depository for dematerialisation of securities is a prerequisite for making a public or rights issue or an offer for sale. The investors, however, have the option of subscribing to securities in either physical form or dematerialised form. All new IPOs are compulsorily traded in dematerialised form. Every public listed company making IPO of any security for Rs. 10 crore or more is required to do so only in dematerialised form.

A company cannot make a public issue unless it has made an application for listing of those securities with stock exchange(s).

Government Securities: The issue is governed by the terms and conditions specified in the general notification of the government and also the terms and conditions specified in the specific notification issued in respect of issue of each security. Government issues securities with fixed coupon rates, floating rate bonds, zero coupon bonds and securities with embedded derivatives. The securities are issued through auction either on price basis or on yield basis.

Where the issue is on price basis, the coupon is predetermined and the bidders quote price per Rs.100 face value of the security, at which they desire to purchase the security. Where the issue is on yield basis, the coupon of the security is decided in an auction and the security carries the same coupon till maturity. On the basis of the bids received, RBI determines the maximum rate of yield or the minimum offer price, as the case may be, at which offers for purchase of securities would be accepted at the auction. The auctions for issue of securities (on either yield basis or price basis) are held either on 'Uniform price' method or on 'Multiple price' method. Where an auction is held on 'Uniform price' method, competitive bids offered with rates up to and including the maximum rate of yield or the prices up to and including the minimum offer price, as determined by RBI, are accepted at the maximum rate of yield or minimum offer price so determined. Bids quoted higher than the maximum rate of yield or lower than the minimum price are rejected. Where an auction is held on 'Multiple price' method, competitive bids offered at the maximum rate of yield or the minimum offer price, as determined by RBI, are accepted. Other bids tendered at lower than the maximum rate of yield or higher than the minimum offer price are accepted at the rate of yield or price as quoted in the respective bid. Bids quoted higher than the maximum rate of yield or lower than the minimum price are rejected. Individuals and specified institutions (read 'retail investors') can participate in the auctions on 'non-competitive' basis. Allocation of the securities to non-competitive bidders are made at the discretion of RBI and at a price not higher than the weighted average price arrived at on the basis of the competitive bids accepted at the auction or at any other price as announced in the specific notification.

Mutual Funds: MF is a kind of collective investment vehicle which pools the resources of small investors, who generally lack expertise to invest on their own, invests in securities and distributes the returns there form among them on cooperative principles. It is set up in the form of a trust which has sponsor, trustees, asset management company, and custodian. The 1990s witnessed emergence of a large variety of funds. There are funds which invest in growth stocks, funds which specialize in the stocks of a particular sector, funds which assure returns to investors, funds which invest in debt instruments, funds which invest aggressively and funds which do not do any of these. Thus there are income funds, growth funds, balanced funds, liquid funds, gilt funds, index funds, sectoral funds, and there are open ended, close ended and assured return (now extinct) funds - there is a fund for every body and also fund of funds. At the end of March 2004, there were 37 MFs with 403 schemes. The MFs are regulated by SEBI regulations which prescribe a code of conduct as well as impose various investment restrictions in the interests of investors. In order to reduce skewed unit holdings, minimum number (20) of investors in a scheme and also ceiling (25% of corpus) on holding of an investor in a scheme has been prescribed.

C. Secondary Market

Corporate Securities: The stock exchanges, recognized under the SCRA, are the exclusive centres for trading of securities. Though the area of operation/jurisdiction of an exchange was being specified at the time of its recognition, they have been allowed recently to set up trading terminals anywhere in the country. The three newly set up exchanges (OTCEI, NSE and ICSE) were permitted since their inception to have nation wide trading. The trading platforms of a few exchanges are now accessible from many locations. 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. Till recently, the brokers of an exchange were allowed to trade among themselves. By a recent amendment to the SCRA, they have been allowed to trade with the brokers of other stock exchanges also. With this amendment, it will be possible for trades to be executed on BSE between a broker of Jaipur Exchange and a broker of Gauhati Exchange.

Exchange Management: Only 3 exchanges (Mumbai, Ahmedabad, Madhya Pradesh) are organised in the form of "Association of Persons", while the balance 20 are organized as companies - either limited by guarantee or by shares. Except one exchange (NSE), all exchanges, whether corporates or association of persons, are not-for-profit organizations.

Most of the stock exchanges in the country are organised as "mutuals" which was considered beneficial in terms of tax benefits and matters of compliance. The trading members, who provide brokering services, also own, control and manage the exchanges. This is not an effective model for self-regulatory organisations as the regulatory and public interest of the exchange conflicts with private interests. In contrast, in a demutualised exchange, the ownership and management and the trading membership are segregated and vested generally with different sets of persons. This model eliminates conflict of interests and helps the exchange to pursue market efficiency and investor interest aggressively. On realising the limitations of mutual structure and discovering the advantages of demutual structure, the authorities and the exchanges are working to demutualise all the non-demutualised exchanges. The exchanges (except two exchanges - NSE and OTCEI - who are already demutualised) have been mandated by the Securities Laws (Amendment) Act, 2004 to demutualise and corporatise themselves by an appointed date.

Membership: The trading platform of an exchange is accessible only to brokers. They execute trades on exchanges either on their own account or on behalf of their clients. Demutualised exchanges allow free entry and exit of brokers, while others have limitations on the number of brokers. The standards for admission of members stress on factors, such as corporate structure, capital adequacy, track record, education, experience, etc., and reflect a conscious endeavour to ensure quality broking services. No stock broker or sub-broker is allowed to buy, sell or deal in securities, unless he or she holds a certificate of registration granted by SEBI. A broker/sub-broker complies with the code of conduct prescribed by SEBI. Over time, a number of brokers - proprietor firms and partnership firms - have converted themselves into corporates. Out of 9,368 brokers registered with SEBI at the end of March 2004, 3,787 brokers, accounting for nearly 40.4% of the total, were corporate entities. At end-March 2004, there were 12,815 sub-brokers registered with SEBI. The small exchanges have floated subsidiaries which have taken trading membership on bigger exchanges and about 2600 brokers of small exchanges trade as sub-brokers through these subsidiaries. They accounted for about 7% of the cash market turnover on exchanges during 2003-04.

Listing: A company seeking listing satisfies the exchange that at least 10% of the securities, subject to a minimum of 20 lakh securities, were offered to the public for subscription, the size of the net offer to the public (*i.e.* the offer price multiplied by the number of securities offered to the public, excluding reservations, firm allotment and promoters' contribution) was not less than Rs. 100 crore and the issue is made only through book building method with allocation of 60% of the issue size to the qualified institutional buyers. Otherwise, it is required to offer at least 25% of the securities to the public. The company is also required to maintain the minimum level of non-promoter holding on a continuous basis.

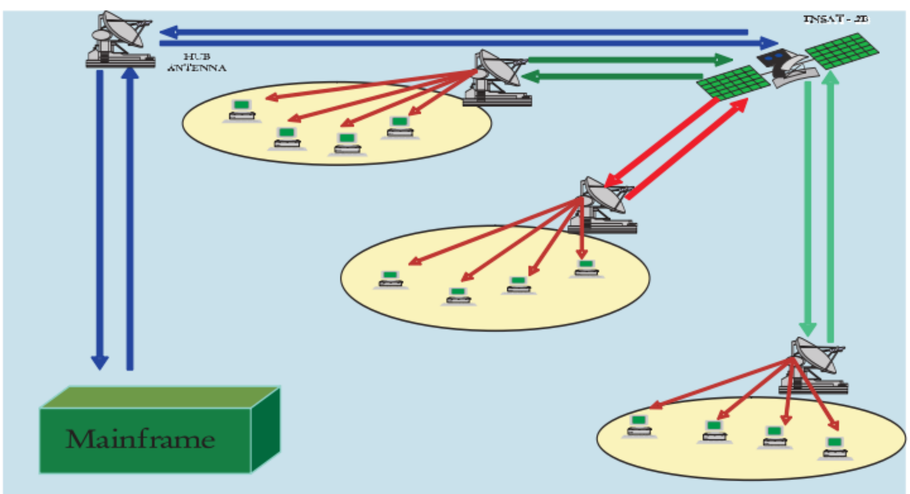
Before making an application for listing to any stock exchange, a body corporate, MF or CIS, is required to obtain a letter of recommendation for listing from the Central Listing Authority. The basic norms for listing of securities on the stock exchanges are uniform for all the exchanges. These norms are specified in the listing agreement entered into between the company and the concerned exchange. The listing agreement prescribes a number of requirements to be continuously complied with by the issuers for continued listing and such compliance is monitored by the exchanges. It also stipulates the disclosures to be made by the companies and the corporate governance practices to be followed by them. SEBI has been issuing guidelines/circulars prescribing certain norms to be included in the listing agreement and to be complied with by the companies.

A listed security is available for trading on the exchange. 9,359 securities were listed on exchanges at the end of March 2004. A security listed on other exchanges is also permitted for trading. The stock exchanges levy listing fees - initial fees and annual fees - from the listed companies. It had been a major source of income for many exchanges till recently. With the withdrawal of the requirement of listing on regional exchange and liberalisation of delisting, and virtually no trades on exchanges, no new company is seeking listing on regional exchanges and the existing companies are getting delisted.

According to Delisting Guidelines, a listed company can voluntary delist its securities from a stock exchange after providing an exit opportunity to holders of securities at a price determined through reverse book building. An exit opportunity is not necessary, if the security remains listed on an exchange having nationwide trading terminals. According to the recent amendment in the SCRA, a stock exchange may delist securities on any of the grounds as may be prescribed in the rules, after giving the company concerned an opportunity of hearing.

Trading Mechanism : The exchanges provide an on-line fully-automated screen based trading system (SBTS) where a member can punch into the computer quantities of securities and the prices at which he likes to transact and the transaction is executed as soon as it finds a matching order from a counter party. SBTS electronically matches orders on a strict price/time priority and hence cuts down on time, cost and risk of error, as well as on fraud thereby resulting in improved operational efficiency. It allows faster incorporation of price sensitive information into prevailing prices, thus increasing the informational efficiency of markets. It enables market participants to see the full market on real-time basis, making the market transparent. It allows a large number of participants, irrespective of their geographical locations, to trade with one another simultaneously, improving the depth and liquidity of the market. It provides full anonymity by accepting orders, big or small, from members without revealing their identity, thus providing equal access to everybody. Trading platform is also accessible to an investor through the Internet and mobile devices such as WAP. It also provides a perfect audit trail, which helps to resolve disputes by logging in the trade execution process in entirety. A typical trading network is presented in Chart 2.

Chart 2: Trading Network



Trading Rules: SEBI has framed regulations to prohibit insider trading as well as unfair trade practices. The acquisitions and takeovers are permitted in a well-defined and orderly manner. Thresholds of shareholding, which require disclosure or public offer, have been prescribed. The companies are permitted to buy back their securities to improve liquidity and enhance the shareholders' wealth.

Price Bands: Stock market volatility is generally a cause of concern for both policy makers as well as investors. To curb excessive volatility, SEBI has prescribed a market wide circuit breaker system which brings about a coordinated trading halt in all equity and equity derivatives markets nationwide, when the index moves either way by 10%, 15% and 20%. The movement of either S&P CNX Nifty or Sensex, whichever is breached earlier, triggers the trading halt. As an additional measure of safety, exchanges have imposed individual scrip-wise price bands, as high as 20% in some securities. However, in respect of securities for which derivative products are available or those included in indices on which derivative products are available, a daily price limit of 10% is applicable.

Demat Trading: There are in place two fully developed depositories which maintain and transfer ownership records in electronic form for the entire range of securities. They encourage broadest direct and indirect industry participation. A large variety of instruments including all securities and money market instruments are held in depositories. These are held in dematerialised form. Investor is sovereign under the depository legislation which gives him the right to hold the securities in physical form or demat form. All securities which investor likes to hold in demat form, are held in depositories. All active securities are traded and settled in demat form. The depositories operate under the Depositories Act, 1996 and SEBI (Depositories and Participants Regulations) 1996, and systems are in place for smooth inter-depository transfer of securities. Stamp duty on transfer of demat securities have been abolished. Securities held in depositories are freely transferable. Demat securities are the preferred collateral in the market. The admission to a depository for dematerialisation of securities has been made a prerequisite for making a public or rights issue or an offer for sale. It has also been made compulsory for public listed companies making IPO of any security for Rs. 10 crore or more to do the same only in dematerialised form. All new IPOs are compulsorily traded in demat form.

Charges: The investors directly or indirectly pay different kinds of charges for securities transactions. These are ultimately paid to the Exchanges, depositories, SEBI, state governments and central government. The brokers are required to pay service tax @10% on their brokerage income. The securities transaction tax (STT) is payable by the brokers at the following rates:

TABLE 10

SECURITIES TRANSACTION TAX

Type of Transaction	Rate (%)	Payable by	Remarks
Delivery based transactions	0.075	Buyer and seller each	No long term capital gains tax. 10% short term capital gains payable. This tax can be set off against normal tax on business income from such transactions
Non-delivery transactions	0.015	Seller	
Derivatives transactions	0.010	Seller	
Transactions in units of equity oriented MF	0.150	Seller	
Transactions in government securities and units of debt oriented MFs	0.000	–	Long term and 30% short term capital gains tax payable

A stock broker in cash segment is required to pay to SEBI a registration fee of Rs. 5,000 for every financial year, if his annual turnover does not exceed Rs. 1 crore. If the turnover exceeds Rs. 1 crore during any financial year, he has to pay Rs. 5,000 plus one-hundredth of 1% of the turnover in excess of Rs.1 crore. After the expiry of five years from the date of initial registration as a broker, he has to pay Rs. 5,000 for a block of five financial years. A sub-broker is similarly required to pay Rs. 1,000 per year for initial five years and Rs. 500 per year for subsequent years. A broker in derivative segment is required to pay Rs. 10,000 per year plus 10 paise for Rs.1,00,000 of turnover in excess of Rs. 500 crore. A clearing member on the derivative segment pays a fee of Rs. 25,000 per year. Besides, the exchanges collect transaction charges from its trading members. NSE levies a transaction charge of Rs. 4 per Rs. 1 lakh of turnover in cash segment. It levies a transaction charge @ 5 paise per Rs. 1 lakh of turnover for trades up to Rs. 25,000 crore and @ 2 paise per Rs. 1 lakh of turnover for trades in excess of Rs. 25,000 crore on WDM segment. It levies a transaction charge of Rs. 2 per lakh of turnover in derivative segment subject to a minimum of Rs. 1 lakh per year. No separate charge is levied for trading and for clearing and settlement. However, in case transactions in government securities, which are settled through CCIL, CCIL charges fees at different rates for different kinds of transactions. For settlement of out right trades in government securities, each counter party pays to CCIL a sum of Rs. 150 per crore of face value, subject to a minimum of Rs. 25 and a maximum of Rs. 5,00 per trade.

The maximum brokerage a trading member can levy in respect of securities transactions is 2.5% of the contract price, exclusive of statutory levies like SEBI fee, service tax and stamp duty. This maximum brokerage is inclusive of the brokerage charged by the sub-broker which shall not exceed 1.5% of the contract price. However, brokerage as low as 0.15% is also observed in the market.

Stamp duties are payable as per the rates prescribed by the relevant state. In Maharashtra, it is charged @ Re. 1 for every Rs. 10,000 or part thereof (i.e. 0.01%) of the value of security at the time of its purchase/sale as the case may be. However, if the securities are not delivered, it is levied @ 20 paise for every Rs. 10,000 or part thereof (0.002%).

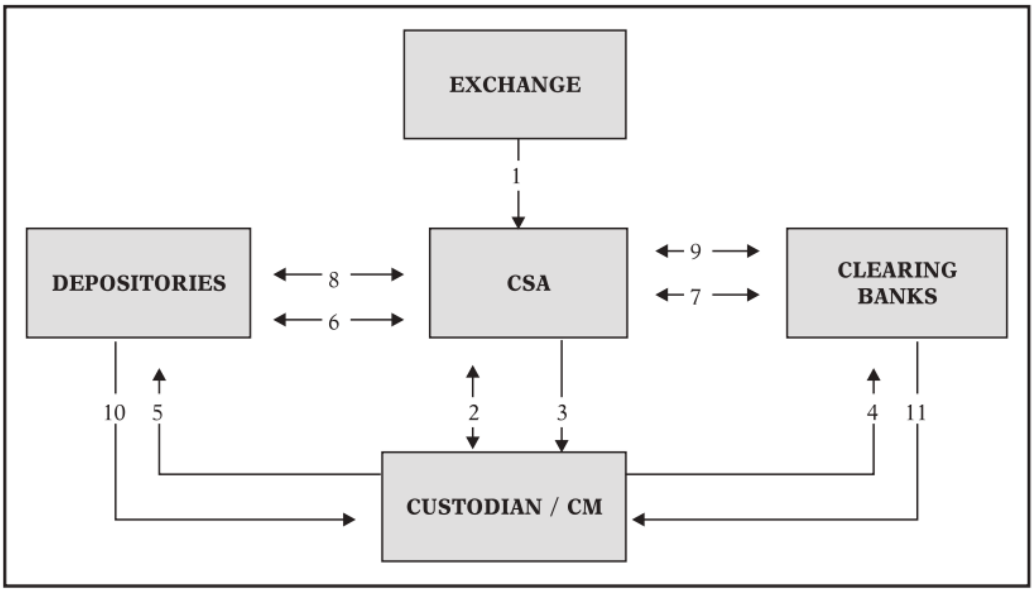
The depositories provide depository services to investors through depository participants. They do not charge the investors directly, but charge their DPs who are free to have their own fee structure for their clients. By a recent SEBI directive, the account opening charges, custody charges and the charges on credit of securities have been waived. A depository is required to pay a registration fee of Rs. 25,00,000 and an annual fee of Rs. 10,00,000 to SEBI, while a DP is required to pay a registration fee of Rs. 1,00,000 and an annual fee of Rs. 1,000.

Settlement: The trades accumulate over a trading cycle of one day and at the end of the day, these are clubbed together, and positions are netted and payment of cash and delivery of securities settle the balance after 2 working days. All trades executed on day 'T' are settled on T+2 day.

Trades are executed on screen and matched trade details are linked to settlement system electronically, and hence matching and confirmation of trades for direct participants are instantaneous. All communications relating to securities settlement is fully electronic and automated. For instance, the clearing agency downloads the obligations and pay-in advices of funds/securities to members electronically through secured networks. It also sends electronic advice to clearing banks and depositories to debit the members' accounts to the extent of their obligations. The banks and the depositories debit accounts of members and credit the account of the clearing agency electronically. The reverse happens when the funds/ securities are paid out to members. The exchange is connected electronically to the clearing and settlement agency, which in turn is connected electronically to clearing banks, depositories, custodians and members. The depositories have electronic communication with depository participants, clearing agency, custodians, clients and exchanges. Most of these electronic communications are interactive. The typical clearing and settlement process is presented in Chart 3.

Except at the stage of entering orders into trading system, no data is entered manually or electronically in the entire value chain. No fresh inputting of data takes place at any stage. Data flows seamlessly among the entities viz. from exchanges to clearing agency and from clearing agency to clearing banks, depository, members and custodians. Once a trade is executed, it has to be settled. There is no way that it can be cancelled. The clearing corporations/ houses have been allowed to borrow and settle the trades on behalf of the brokers who fail to deliver securities. Though the largest exchange uses the services of a clearing corporation to clear and settle the trades, all exchanges are being required to transfer these functions to a clearing corporation.

Chart 3: Clearing and Settlement Process



1. Trade details from Exchange to Clearing and Settlement Agency (CSA) (real-time and end of day trade file).
2. CSA notifies the consummated trade details to CMs/custodians who affirm back. Based on the affirmation, CSA applies multilateral netting and determines obligations.
3. Download of obligation and pay-in advice of funds/securities.
4. Instructions to clearing banks to make funds available by pay-in-time.
5. Instructions to depositories to make securities available by pay-in-time.
6. Pay-in of securities (CSA advises depository to debit pool account of custodians/CMs and credit its account and depository does it).
7. Pay-in of funds (CSA advises Clearing Banks to debit account of custodians/CMs and credit its account and clearing bank does it.) CSA transfers funds between clearing banks to meet the pay-out requirements at each bank.
8. Pay-out of securities (CSA advises depository to credit pool account of custodians/CMs and debit its account and depository does it).
9. Pay-out of funds (CSA advises Clearing Banks to credit account of custodians/CMs and debit its account and clearing bank does it).
10. Depository informs custodians/Clearing Members (CMs) through DPs.
11. Clearing Banks inform custodians/CMs.

Risk Management : To pre-empt market failures and protect investors, the regulator/exchanges have developed a comprehensive risk management system, which is constantly monitored and upgraded. It encompasses capital adequacy of members, adequate margin requirements, limits on exposure and turnover, indemnity insurance, on-line position monitoring and automatic disablement, etc. They also administer an efficient market surveillance system to curb excessive volatility and to detect and prevent price manipulations. Exchanges have set up trade/settlement guarantee funds for meeting shortages arising out of non-fulfilment/partial fulfilment of funds obligations by the members in a settlement. A clearing corporation assumes the counterparty risk of each member and guarantees financial settlement in respect of trades executed on NSE.

Government Securities : Most of the secondary market trades in government securities are negotiated between participants (Banks, FIs, PDs, MFs) having SGL accounts with RBI. These may be negotiated directly between counter parties or negotiated through brokers. NDS of RBI provides an electronic platform for negotiating trades in government securities. If a broker is involved, the trade is reported to the concerned exchange. Trades are also executed on the electronic platform of the WDM segment of NSE.

Negotiated Dealing System: NDS facilitates screen based negotiated dealing for secondary market transactions in government securities. NDS members concluding deals outside NDS system in government securities are required to report the deal on NDS system within 15 minutes of concluding the deal. The deals reported/negotiated on NDS, without the use of brokers, are required to be settled on T+0 or T+1. The deals executed through brokers need to be reported to exchanges and can be settled on T+0 to T+5 basis. The system is designed to maintain anonymity of buyers and sellers but only the vital information of a transaction viz., ISIN of the security, nomenclature, amount (face value), price/rate and/or indicative yield, in case applicable, are disseminated to the market. NDS interfaces with CCIL for settlement of government securities transactions for both outright and repo trades done/reported by NDS members.

Wholesale Debt Market of NSE : Trading system provides two market platforms: continuous market and negotiated market. In continuous market, the buyer and seller do not know each other and they put their best buy/sell orders, which are stored in order book with price/time priority. If orders match, it results into a trade. The trades are settled directly between the participants, who take an exposure to the settlement risk attached to any unknown counter-party. A trade does not take place if both the buy/sell participants do not invoke the counter-party exposure limit in the trading system. In the negotiated market, the trades are normally decided by the seller and the buyer outside NSE and are reported to NSE through the broker. Thus, deals negotiated or structured outside the exchange are disclosed to the market through the trading system. As buyers and sellers know each other and have agreed to trade, no counter-party exposure limit needs to be invoked. The trades, reported or executed, on the WDM segment could be either outright trades or repo transactions with flexibility for varying days of settlement (T+0 to T+5) and repo periods (1 to 14 days).

Clearing Corporation of India Limited : The CCIL facilitates settlement of transactions in government securities (both outright and repo) on Delivery *versus* Payment (DVP-III) basis which provides for settlement of securities and settlement of funds on net basis simultaneously. It acts as a central counterparty for clearing and settlement of government securities transactions reported/executed on NDS.

Derivatives Market : Only two exchanges, namely the NSE and BSE, offer platform for trading of derivatives of securities. In view of 99.5% market share of NSE, this section discusses market design of derivatives traded on NSE. The derivatives trading system at NSE provides a fully automated screen-based trading for Nifty futures and options, stock futures and options and interest rate derivatives on a nationwide basis as well as an online monitoring and surveillance mechanism. It supports an anonymous order driven market, which operates on a strict price/time priority. It provides tremendous flexibility to users in terms of kinds of orders that can be placed on the system. The contract specification for derivatives are summarised in Table 11.

TABLE 11

CONTRACT SPECIFICATIONS FOR F&O SEGMENT AT NSE

Particulars	Index Futures	Stock Futures	Index Options	Stock Options	Interest Rate Derivatives
Security Description	FUTIDX	FUTSTK ——	OPTIDX	OPTSTK —-	FUTINT
Underlying	S&P CNX Nifty/CNXIT	52 Individual Securities	S&P CNX Nifty/CNXIT	52 Individual Securities	Notional 91 day T-Bills and Notional 10 year bonds
Contract Size (minimum Rs. 2 lakh)	200 or multiples thereof/100	Varies	200 or multiples thereof/100	Varies	2000
Operating Range (% of base price)	10	20	99	99	2
Price Band		______________ Not Applicable ______________			
Price Steps		______________Rs.0.05______________			Rs. 0.01
Trading Cycle	A maximum of three month trading cycle - the near month (one), the middle month (two) and the far month (three). New contract is introduced on the next trading day following the expiry of near month contract. Additionally there are fixed quarterly contracts for the entire year in case of interest rate derivatives.				
Maturity of Contracts		_________ 3 Months _________			1 Year
Expiration Day	Last Thursday of the expiry month or the preceding trading day, if last Thursday is a trading holiday				
Style of Option	NA	NA	European	American	NA
No. of Strike Prices	NA	NA	Minimum of 5 (two 'in the money', one 'at the money' and two 'out of the money') for every option type (i.e. call and put)	Minimum of 7 (three 'in the money', one 'at the money' and three 'out of the money') for every option type (i.e. call and put)	NA
Strike Price Interval (in Rs.)	NA	NA	10	Between 2.5 and 50 depending on the price of the underlying	NA
Settlement	In cash on T+1 basis	In cash on T+1 basis	In cash on T+1 basis	Daily settlement on T+1 basis and final settlement on T+2 basis	In cash on T+1 basis
Daily Settlement Price	Closing price of futures contract	Closing price of futures contract	Premium Value (net)	Premium Value (net)	Closing price of the relevant futures contract
Final Settlement Price	Closing value of index on expiry day	Closing value of securities on expiry day	Closing value of index on expiry day	Closing price of security on exercise day or expiry day	Value of the notional bond determined using the zero coupon yield curve
Margins		_______VaR based Up-front initial margin at client level_______			

NA: Not applicable.

Source: NSE Website

IV. Regulatory Framework

The four main legislations governing the securities markets are: (a) the SEBI Act, 1992 which established SEBI to protect investors and develop and regulate securities market; (b) the Companies Act, 1956, which sets out the code of conduct for the corporate sector in relation to issue, allotment and transfer of securities, and disclosures to be made in public issues; (c) the Securities Contracts (Regulation) Act, 1956, which provides for regulation of transactions in securities through control over stock exchanges; and (d) the Depositories Act, 1996 which provides for electronic maintenance and transfer of ownership of demat securities.

A. Legislations

SEBI Act, 1992: The SEBI Act, 1992 establishes SEBI with statutory powers for (a) protecting the interests of investors in securities, (b) promoting the development of the securities market, and (c) regulating the securities market. Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with the securities market. It can conduct enquiries, audits and inspection of all concerned and adjudicate offences under the Act. It has powers to register and regulate all market intermediaries and also to penalise them in case of violations of the provisions of the Act, Rules and Regulations made thereunder. It has full autonomy, including financial autonomy, and authority to develop and regulate an orderly securities market.

Securities Contracts (Regulation) Act, 1956 : It provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and aims to prevent undesirable transactions in securities. It gives central government/SEBI regulatory jurisdiction over (a) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) listing of securities on stock exchanges. As a condition of recognition, a stock exchange complies with the conditions prescribed by Central Government. Organised trading activity in securities takes place on recognised stock exchanges. The stock exchanges determine their own listing regulations which have to conform to the minimum listing criteria set out in the Rules.

Depositories Act, 1996: The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities of public limited companies freely transferable subject to certain exceptions; (b) dematerialising the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form. In order to streamline the settlement process, the Act provides transfer of ownership of securities electronically by book entry without necessitating the securities move from person to person. The Act has made the securities of all public limited companies freely transferable, restricting the company's right to use discretion in effecting the transfer of securities, and the transfer deed and other procedural requirements under the Companies Act have been dispensed with.

Companies Act, 1956 : It deals with issue, allotment and transfer of securities and various aspects relating to company management. It prescribes for standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and management perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights and bonus issues, payment of interest and dividends, supply of annual report and other information etc.

B. Rules and Regulations

In order to meet exigencies of the market and to provide flexibility to regulators, they have been delegated substantial powers of subordinate legislation. The Government have framed rules under the SCRA, the SEBI Act and the Depositories Act. SEBI has framed regulations under the SEBI Act and the Depositories Act for registration and regulation of all market intermediaries, and for prevention of unfair trade practices, insider trading, etc. The regulated and the market participants are consulted before framing any regulation. Under the Acts, Government and SEBI issue notifications, guidelines, and circulars which need to be complied with by the market participants. The SROs like stock exchanges have also laid down their rules and regulations. The list of the Regulations, Guidelines and Schemes issued by SEBI is presented in Table 12.

TABLE 12

REGULATIONS, GUIDELINES, AND SCHEMES ISSUED BY SEBI

	Regulations
1	SEBI (Stock Brokers and Sub Brokers) Regulations, 1992
2	SEBI (Prohibition of Insider Trading) Regulations, 1992
3	SEBI (Merchant Bankers) Regulations, 1992
4	SEBI (Portfolio Managers) Regulations, 1993
5	SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993
6	SEBI (Underwriters) Regulations, 1993
7	SEBI (Debenture Trustees) Regulations, 1993
8	SEBI (Bankers to an Issue) Regulations, 1994
9	SEBI (Foreign Institutional Investors) Regulations, 1995
10	SEBI (Custodian of Securities) Regulations, 1996
11	SEBI (Depositories and Participants) Regulations, 1996
12	SEBI (Venture Capital Funds) Regulations, 1996
13	SEBI (Mutual Funds) Regulations, 1996
14	SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997
15	SEBI (Buy-Back of Securities) Regulations, 1998
16	SEBI (Credit Rating Agencies) Regulations, 1999
17	SEBI (Collective Investment Schemes) Regulations, 1999
18	SEBI (Foreign Venture Capital Investors) Regulations, 2000
19	SEBI (Procedure for Board Meeting) Regulations, 2001
20	SEBI (Issue of Sweat Equity) Regulations, 2002
21	SEBI (Procedure for Holding Enquiry by Enquiry officer and Imposing Penalty) Regulations, 2002
22	SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003
23	SEBI (Central Listing Authority) Regulations, 2003
24	SEBI (Ombudsman) Regulations, 2003
25	SEBI (Central Database of Market Participants) Regulations, 2003
26	SEBI (Self Regulatory Organisations) Regulations, 2004
27	SEBI (Criteria for Fit and Proper Person) Regulations, 2004
	Guidelines
1	SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999
2	Guidelines for Opening of Trading Terminals Abroad (Issued in 1999)
3	SEBI (Disclosure & Investor Protection) Guidelines, 2000

4	SEBI (Delisting of Securities) Guidelines, 2003
5	SEBI (STP Centralised Hub and STP Service Providers) Guidelines, 2004
6	Comprehensive Guidelines for Investor Protection Fund/Customer Protection Fund at Stock Exchanges (Issued in 2004)
	Schemes
1	Securities Lending Scheme, 1997
2	SEBI (Informal Guidance) Scheme, 2003
	Initiative
1	SEBI (Award for Excellence in Research in Securities Market) Initiative (Announced in 2004)

Source : SEBI

C. Regulators

The responsibility for regulating the securities market is shared by Department of Economic Affairs (DEA), Ministry of Company Affairs (MoCA), SEBI and Reserve Bank of India (RBI). The activities of these agencies are coordinated by a High Level Committee on Capital and Financial Markets. The orders of SEBI under the securities laws are appellable before the Securities Appellate Tribunal. The orders of the SAT are appellable only before the Supreme Court on points of law.

Most of the powers under the SCRA are exercisable by DEA while a few others by SEBI. The powers of the DEA under the SCRA are also concurrently exercised by SEBI. The specified powers under the SCRA in respect of the contracts for sale and purchase of government securities, gold related securities, money market securities and securities derived from these securities and ready forward contracts in debt securities are exercised concurrently by RBI. The SEBI Act and the Depositories Act are mostly administered by SEBI. The rules under the securities laws are framed by government while the regulations are framed by SEBI. These are administered by SEBI. The powers under the Companies Act relating to issue and transfer of securities and non-payment of dividend are administered by SEBI in case of listed public companies and public companies proposing to get their securities listed. The SROs ensure compliance with their own rules as well as with the rules relevant to them under the securities laws.

D. Intermediaries

As stated earlier, the securities market uses the services of a large variety of intermediaries to bring the suppliers of funds and suppliers of securities together for a variety of transactions. The quality of intermediation services determines the shape and health of the securities market, as the suppliers of funds/securities rely on knowledge and expertise of the intermediaries and look up to them for guidance and support. The provision of quality intermediation is necessary not only to sustain the reforms in the market, but also to maintain and enhance the confidence of investors/issuers in the market. They can have comfort if the intermediary as well as its employees (i) follow a certain code of conduct and behave properly and (ii) are capable of providing professional services. All the intermediaries in the securities market are now registered and regulated by SEBI. A code of conduct has been prescribed for each intermediary as well as for their employees in the regulations; capital adequacy and other norms have been specified; a system of monitoring and inspecting their operations has been instituted to enforce compliance; and disciplinary actions are being taken against them for violating any regulation. All the intermediaries in the market are mandated to have a compliance officer who reports independently to SEBI about any non-compliance observed by him. Thus a reasonably satisfactory arrangement is in place to ensure good conduct of the intermediaries. As regards the capability, the intermediaries need to have capable people who understand the market, regulations and products and can guide the investors and issuers to take appropriate decisions. This is generally ensured through a set of complementary initiatives, namely, training and certification programmes. SEBI has mandated certifications for derivative brokers and MF distributors. SEBI has set up an institute called 'National Institute of Securities Markets' which will undertake training and certification with credibility and efficiency. It would design and implement the entire gamut of educational initiatives, including education, training, certification, research, consultancy, in the area of securities market and allied subjects to build a cadre of securities market professionals, which is a basic infrastructure for development of the securities market.