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INDIAN CAPITAL MARKET IN TRANSITION-ROLE OF SEBI

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ABSTRACT

Although the Indian Capital Market witnessed some significant changes in the eighties, both the primary and the secondary segments continued to suffer from serious deficiencies'. Many unhealthy practices prevailed in the primary market to attract retail investors and the high cost of new issues. Although over the years, number of agencies had increased, offering different types of services in connection with the new issues of capital, their activities were not overseen by any regulatory authority. The problems were even more serious in the secondary market. The general functioning of the stock exchange was not satisfactory. The exchanges were governed by their internal byelaws and managed by the governing bodies, which were dominated by elected member brokers. Trading members were also not adequately capitalized. Insider trading was rampant and was one of the major causes of excessive speculative activity, leading to default by stock brokers, frequent payment crisis and disruption of market activity. This in turn led to Lack of transparency in trading operations, besides resulting in long and uncertain cycles. This paper makes an attempt to look into the developmental role of capital market, facilitated by the role of SEBI and its never evasive role in the economic development of the nation. Stock exchange being an essential component of developed capital market brings together large amounts of capital necessary for the economic progress of the country. Since 1988, SEBI has been playing a significant role in regulating the Indian Capital market.

KEYWORDS: Capital Market, Stock Exchange, SEBI

INTRODUCTION

The Indian Financial market comprises of the Credit market, Money market, Capital market, Foreign Exchange market, Debt market and Derivatives Market. Apart from these, there are also markets like the house hold finance market, NBFC (Non Banking Financial companies) market and insurance market which hold considerable assurance of developments in the years to come. These markets are not as developed and regulated as the credit/foreign exchange/money/capital/gilt-edged markets. With banks having allowed to enter and undertake insurance business, bank assurance market is also likely to emerge on a large scale[1].

Financial Market Reforms

Until the ushering in of economic reforms in the early 1990's,most of the financial markets were characterized by

- Controls over the pricing of financial assets
- Restrictions on flow or transactions

- Barriers to entry
- Low liquidity and high Transaction costs

All these difficulties hindered the market developments and allocative efficiency of resources channeled through them suffered.

With the initiation of financial sector reforms in the early 1990's ,there was transformation in the structure, efficiency, and stability of financial markets and also led to their integration.

Some reforms related to financial sector are

- Introduction of free pricing of assets in all segment
- Relaxation of quantitative restrictions
- Removal of barriers to entry into the markets
- New methods of floating/issuance of securities
- Increase in number of financial Instruments and enlarged participatory improvement in trading
- Innovative clearing and settlement practices
- Improvement in the informational flows, transparency and disclosure practices.

Objectives of the Study

In order to analyse the developmental role of Indian capital market and the regulatory role of SEBI, the study has been undertaken with the following objectives

- To now the indicators of Capital market development.
- To now the significance of capital market in Indian econmoy.
- To trace out the trends in Capital market operations with special emphasis on small and household Investor protection.
- To identify the regulatory role of SEBI.

Financial Market in India

Money and Capital markets are the two most important constituents of Indian Financial market. Money market is the market for short-term funds and it facilitates and promotes transactions in short-term funds. Capital market is the market for long-term funds and in a broader sense, it embraces even the Money market. Though no clear distinction between the two, the money and capital market are infact interdependent, developments and trends in one affecting the other?

Nature and Importance of Capital Market

The Capital market consists of suppliers of loan able funds, the borrowers and the intermediaries who deal with the lenders on the one hand and the borrowers on the other .Here, supply of funds come from individual and institutional savings, investors and surplus of government.

The demand for capital comes from agriculture, industry, trade and the government.

The pace of economic development is conditioned by the rate of long-term investment and capital formation which in turn is conditioned by the mobilizati, augmentation and channelization of investible funds.

The Capital market serves as an instrument in pooling the capital resources of the country and making them available to the enterprising investors.

Well developed capital markets augment resources by attracting and lending funds on a global scale.

A well developed capital market can solve the problem of paucity of funds. An organized capital market can mobilize and pool together even the small and scattered savings and augment the availability of investible funds.

The developments in capital markets have facilitated the growth of joint stock business. A developed capital market provides a number of profitable investment opportunities for the small savers

Indian Equity markets and the Indian Debt markets together form the Indian Capital market. Indian equity market is at present a lucrative field for investors. Indian stocks are profitable not only for long and medium term investors but also the position traders short term swing traders and also very short term intraday traders .In India, as on Dec30,2007market capitalization(BSE500) at US dollars 1638Billion was 150 percent of GDP matching well with other emerging economies and selected matured markets .For a developing economy like India ,debt markets are crucial sources of Capital funds .In this an attempt has been made to review first the functions of the Capital market ,then its role and significance in the growth of economy then how a capital market in a free market economy contributes to economic growth and then its role in the growth and development of Indian economy.

Developments in the Capital Market

The Indian capital market has undergone remarkable changes in the post-independence era. Certain steps taken by the government to place the market on a strong footing and develop it to meet the growing capital requirements of fast industrialization and development of the economy have significantly contributed to the developments that took place in the Indian capital market over the last five decades.

CAPITAL MARKET REFORMS AND DEVELOPMENT

Indicators of Capital Market Development

Stock market development like the economic development is a complex and multifaceted concept and no single measure will capture all aspects of stock market development .Thus we examine a broad array of stock market development indicators.

- STOCK MARKET SIZE
- LIQUIDITY
- REGULATORY AND INSTITUTONAL DEVELOPMENT

The number of Stock Exchanges has increased and the capital market has expanded substantially. However, the functioning of the stock exchanges were characterized by many shortcomings with long delays, lack of transparency in procedures and vulnerability to price rigging and insider trading. A number of measures have been taken to overcome these problems. The objectives of these measures, broadly, have been to:

- Provide for effective control of stock exchange operations.
- Increase the information flow and disclosures so as to enhance the transparency.
- Protect the interests of the investors.
- Check insider trading.
- Improve the operational efficiency of the stock exchanges.
- Promote healthy development of the capital market.

The important facts that have contributed to the development of the capital market in India are the following.

- **Legislative Measurements** – Laws like the Companies Act, the Securities Contract(Regulation) act and the Capital Issues(Control) Act empowered the government to regulate Capital Market.
- Establishment of development banks and expansion of the public sector-Starting with IFCI, a number of development banks have been established at both national and regional levels
- **Growth of Underwriting Business**-After the elimination of forward trading, brokers have begun to take on underwriting risks in the new issue market.
- **Public Confidence –**Impressive performance of large companies encouraged public investment in industrial securities.
- **Increasing Awareness of Investment Opportunities**- Improvement in education and investor awareness have furthered the cause of investment opportunities.
- **Capital Market Reforms** - A number of measures have been taken to check abuses and to promote healthy development of the Capital market.

Since 1988, SEBI has been playing a significant role in regulating the Indian capital market.

OBJECTIVES AND ROLE OF STOCK EXCHANGE

Stock exchange is a market in which securities are bought and sold and an essential component of capital market. Securities exchange contract (Regulation) Act, 1956 defines it as "anybody of individuals whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities". It is regarded as a necessary and essential concominant of the capitalistic system of the economy as it provides mobility to the capital and directs the flow into profitable and successful enterprises`

The objectives and role of the Bombay Stock Exchange, which have remained the same as enunciated by founding fathers and given as a mandate in1887nthrough the charter, highlight the functions and objectives of stock exchange. These objectives are:

- To safe guard the interest of investing public having dealings on the Exchange and the members.
- To establish and promote honorable and just practices in securities transactions.
- To promote, develop and maintain a well regulated market for dealing in securities.
- To promote industrial developments in the country through efficient resource mobilization by way of investment in corporate securities.

The exchange while providing an efficient market also upholds the interests of the investors and ensures redressal of their grievances, whether against the companies or its own member-brokers. It also strives to educate and enlighten the investors by making available necessary informative inputs.

SEBI

The establishment of the Securities and Exchange Board of India (SEBI) was a landmark government measure to monitor and regulate the capital market activities and to promote healthy development of the market. SEBI was constituted in 1988 by a resolution of the government of India and it was made a statutory bogy by the Securities and Exchange Board of India Ac, 1992.

Powers and Functions

The SEBI Act casts upon SEBI the duty to protect the interests of investors in securities and to promote the development of and to regulate the securities market through appropriate measures, These measures provide for:

- Regulating the business in stock exchanges and any other securities market.
- Registering and regulating the working of stock brokers , sub-brokers , share transfer agents, bankers to an issue ,trustees of trust deeds , registrars to an issue , merchant bankers , underwriters , portfolio managers , investment advisers and such other intermediaries who may be associated with securities market in any manner.
- Registering and regulating the working of collective investment schemes, including mutual funds.
- Promoting and regulating self- regulatory organizations.
- Prohibiting fraudulent and unfair trade practices in securities market.
- Promoting investor education and training of intermediaries in securities market.
- Prohibiting insider trading in securities.
- Regulating substantial acquisition of shares and take-over of companies.
- Calling for information from, undertaking inspection; conducting enquiries and audits of the stock exchanges, intermediaries and self-regulatory organizations in the securities market.
- Performing such functions and exercising such powers under the provisions of the capital issues act, 1947, and the Securities Contacts Act. 1956, as may be delegated to it by the central government.

- Levying fees or other charges for carrying out the purposes of section 11 of the Act.
- Conducting research for the above purpose.
- Performing such other functions as may be prescribed by the government.

CONCLUSIONS

Capital market is vital for the development and strength of the economy. A strong and vibrant capital market assists corporate world initiatives, finance and exploration of new processes and instruments facilitate management of financial risk. Inspite of the role played by SEBI, one of the biggest challenges is to adapt regulatory and supervisory approaches to an environment of continuous change. Information technology has replaced century old floor based open-cry system/Corporate governance has engaged the attention of regulators, adoption of regulators, adoption of internationally accepted accounting standards will improve corporate governance. Although SEBI has played a vital role, still it needs to be alert to the developments in all the spheres not only in India but also in the entire world to evolve efficient and transparent regulations.

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