HISTORY AND ORGANISATION
OF THE STOCK MARKET IN INDIA

THE STOCK EXCHANGE
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HISTORY OF THE STOCK MARKET IN INDIA

I - 1800-1865

EARLY BEGINNINGS

1.1 The stock market provides a market place for the purchase and sale of securities evidencing the ownership of business property or of a public or business debt. The origin of the stock market therefore goes back to the time when securities representing this property or promises to pay were first issued and made transferable from one person to another.

1.2 The earliest records of security dealings in India are meagre and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century.

1.3 By 1830's, there was a perceptible increase in the volume of business, not only in loans but also in corporate stocks and shares. In Bombay, business passed in the shares of banks like "the Commercial Bank, the Chartered Mercantile Bank, the Chartered Bank, the Oriental Bank and last, though not the least, the old Bank of Bombay", and among other prominent shares were those of Cotton Presses. In Calcutta, the Englishman reported in 1836 the quotations of 4%, 5% and 6% Loans of the East India Company as well as of the shares of the Bank of Bengal for which there were buyers at Rs. 5,000 premium and sellers at a premium of Rs. 7,500.

1.4 The trading list was broader in 1839 and Calcutta newspapers then gave quotations of banks like the Union Bank and the Agra Bank and of business ventures like the Bengal Bonded Warehouse, the Docking Company and the Steam Tug Company. Brokers then were not a numerous community and in Bombay "between 1840 and 1850 there were half a dozen brokers recognised by the banks and merchants". In 1850, the Companies Act introducing limited liability was enacted and with it commenced the era of modern joint stock enterprise in India.

STOCKBROKERS' RISE TO POWER UNDER PREMCHAND ROYCHAND

2.1 From 1850 to 1865, the history of brokers and their rise to power in Bombay is the history of Premchand Roychand. The 1850's witnessed a rapid development of commercial enterprise. The extension of railways and introduction of telegraphs and the gradual improvement in the system of communications promoted internal trade and commerce; at the same time, the demand for European manufactures increased in this country and was accompanied by the growth of a corresponding demand in Europe for our exports. Stockbrokers shared in this general progress. "The hoondee business was most prosperous and so was that of brokerage".

2.2 Brokerage business attracted many men into the field and by 1860 the number of brokers increased to 60. Their acknowledged leader was the legendary Premchand Roychand who had entered the trade in 1850. He was the first broker who could speak and write English. Within six or seven years, he nearly monopolised the brokerage business in shares, stocks, bullion and partly exchange and gathered all the strings in his hands. Not only shares but also "all the best gilt-edged securities of those days gave him splendid opportunity for the display of that brilliant financial strategy which crowned him as the Napoleon of Finance and he was acclaimed as such by myriads of his countrymen".

2.3 Although Premchand Roychand remained a broker all his life, in the 1860's he directed his financial genius to other pursuits and manifold activities. He led captive the imagination of Indians and Europeans alike and all the enterprises were either promoted by him or promoted through his goodwill and help. He "floated banks and financial institutions by the dozen, land and sea relocations and trading and other Companies of diverse kinds with the rapidity of the prophet's gourd".
2.4 Premchand Roychand wielded the sceptre of kings. The Bank of Bombay Commission put it on record in its Report that the old Bank of Bombay was practically his. It was the same with the Asiatic Bank and a host of other institutions. The story of the boom that followed his activities was indeed "a marvellous history more fascinating in its incidents than many a tale of Arabian Nights. The unconscious maker of that history was primarily Premchand Roychand himself... His was the master mind in finance which wrought those marvellous miracles on the Stock Exchange".

SHARE MANIA OF 1860-65

3.1 In 1860-61, the American Civil War broke out and totally stopped the supply of cotton from the United States to Europe. The resulting cotton famine led to a large and unlimited demand on India, and India really meant the Bombay Presidency where alone the largest stocks were available. In four years, exports fully doubled themselves from 5,66,000 bales to 11,18,000 bales.

3.2 As the Civil War progressed, the price of cotton kept rising till it reached 27d. per pound against 3d. to 5d. quoted before 1863. The large exports of cotton were paid for in bullion which poured into Bombay from Liverpool in the shape of silver and gold. As shown in Table 1, the total import of bullion amounted to Rs.85 crores between 1861-62 and 1864-65. Out of this, Bombay alone absorbed Rs.52 crores, giving an average of Rs.13 crores per annum.

TABLE I

<table>
<thead>
<tr>
<th>Year</th>
<th>India Crores of Rs.</th>
<th>Bombay Crores of Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1861-62</td>
<td>17.73</td>
<td>9.48</td>
</tr>
<tr>
<td>1862-63</td>
<td>19.63</td>
<td>13.98</td>
</tr>
<tr>
<td>1863-64</td>
<td>18.97</td>
<td>16.13</td>
</tr>
<tr>
<td>1864-65</td>
<td>28.49</td>
<td>12.19</td>
</tr>
<tr>
<td>Total</td>
<td>84.82</td>
<td>51.78</td>
</tr>
</tbody>
</table>

3.3 The import of all this bullion was in addition to the wealth of the City and served as fresh capital for a number of new ventures. As observed by the Bank of Bombay Commission in its Report -

"The great and sudden wealth produced by the price of cotton shortly after the commencement of the American War, coupled with the want of legitimate means of investment, was at this time producing its natural result in the development of excessive speculation... From this period everyone in Bombay appears to have become wild with the spirit of speculation. Companies were started for every imaginable purpose - banks and financial associations, land reclamation, trading, cotton cleaning, pressing and spinning, hotel companies, shipping and steamer companies and companies for making bricks and tiles".

3.4 Between 1863-65, the capital drawn into these new ventures was nearly Rs.30 crores and the premia they fetched in the market amounted to nearly Rs.38 crores. As Table II indicates, more than 125 concerns were involved and in not a few cases the premia exceeded the paid-up capital.

TABLE II

New Company Flotations, 1863-65

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>Banks</td>
<td>13.64</td>
<td>10.94</td>
</tr>
<tr>
<td>69</td>
<td>Financial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Associations</td>
<td>6.22</td>
<td>4.42</td>
</tr>
<tr>
<td>30</td>
<td>Land Reclama-tions Cos.</td>
<td>8.34</td>
<td>17.56</td>
</tr>
<tr>
<td>131</td>
<td>Miscellaneous Cos.</td>
<td>1.56</td>
<td>5.00</td>
</tr>
</tbody>
</table>

*Approximate
3.5 The first vital spark of the speculation which eventually burst out into a huge conflagration was kindled by the Asiatic Banking Corporation. Originally named the Bombay Joint Stock Bank, it was established in 1863 with a capital of Rs. 50 lakhs which was doubled within a year when a charter was obtained. Its shares were rigged up to a premium of 65 per cent in a few short months and it was the forerunner of 94 other monetary institutions which came into existence on its heels.

3.6 It was also in 1863 that the charter of the old Bank of Bombay was amended and its capital doubled from Rs. 52 lakhs to Rs. 104 lakhs. At the same time, the ban on the Bank prohibiting it from making advances on personal security was removed and permission to advance on Government securities was enlarged to cover securities of "other public companies in India". This new freedom was fully exploited. Premchand Roychand dominated the Bank and under his influence the Bank advanced on a variety of supposed substantial securities with a highly fictitious value. The reckless lending policy of the Bank of Bombay was in a large measure imitated by others and it was in a considerable degree responsible for the speculation that followed.

3.7 From 1861 to the beginning of 1865, there was nothing however wild that was floated whose shares did not command a premium. The Back Bay Reclamation share with Rs. 5,000 paid-up was at Rs. 50,000 premium, the Port Canning share with Rs. 1,000 paid-up was at Rs. 11,000 premium, while the Mazgaon Land share was at Rs. 9,000 premium and the Elphinstone Land share at more than 500 per cent premium. Some of the banks and financial associations reached a premium of 50 per cent to 100 per cent without being tested by returns. The Asiatic Bank share of Rs. 200 was quoted at Rs. 460 in August 1864 and the Bank of Bombay share with Rs. 500 paid-up reached a maximum price of Rs. 2,850.

3.8 It was said that "man and woman, master and servant, employer and employee, banker and merchant, trader and artisan, rich and poor, of all races and creeds, officials in high position included, were deeply busy from day to day in the art of commuting bits of paper, variously called 'allotments', 'scrips' and 'shares' into gold and silver'. The madness which seized the people at large was indescribable. The people only woke up when the end of the American Civil War came. Then all rushed to sell their securities but there were no buyers and the entire wealth received during the Civil War was represented by a huge mass of unsaleable paper.

3.9 The fatal day was reached on the 1st of July, 1865, when hundreds of time bargains matured which no one was in a position to fulfil. A disastrous slump followed and it so completely overwhelmed the City that the Bank of Bombay share which had previously touched Rs. 2,850 could only be sold at Rs. 87 and the Back Bay Reclamation share at not more than Rs. 1,750 against its peak price of Rs. 50,000, while a share of the solid Elphinstone Company could only be sold at Rs. 450, of Colaba at Rs. 975, Mazgaon at Rs. 515 and Frere Land at Rs. 115.

3.10 Like the South Sea Bubble and the Tulip Mania of the eighteenth century in Europe, the Share Mania of 1861-65 caused widespread desolation, and Premchand Roychand and his broker friends were "anathematized". A large number of Companies failed and there were few left solvent in Bombay. A special legislation, being Act XXVIII of 1869, had to be enacted to deal with the mass failures swiftly and expeditiously. The liquidation went on till 1872.

3.11 The depression was long and severe, but the Share Mania had certain lasting effects. The expansion of liquid capital and the establishment of a regular market in securities were its direct results and they helped to make Bombay what it is today: "the chief centre of the money and capital market" and "the financial capital of India".
4.1 During the Share Mania of 1861-63, the number of brokers greatly increased and they became possessed of great influence, authority and wealth. Between 1840 and 1850, only half a dozen brokers had sufficed for the limited business that then existed and their meeting place was under the widespread banyan trees in front of the Town Hall at the Cotton Green where the Elphinstone or Horniman Circle is now situated. Brokers continued to meet there till 1855 by which time their number had increased between 30 and 40. After 1855, brokers made their market place again under the shade of some banyan trees, between the old Fort Walls and the old Mercantile Bank, on the open site now facing the Central Bank of India Head Office Building at the junction of Medows Street and Mahatma Gandhi Road.

4.2 By 1860, the number of brokers was about 60 and during the exciting period of the American Civil War their number increased to about 200 to 250. Brokers were then a privileged class, created as much noise as they pleased and obstructed without let or hindrance the streets, the shops and the lower premises of banks. Bank managers went to their rooms through a serried rank of brokers, bowing to them right and left, and the police had only ‘salams’ for them.

4.3 The end of the American Civil War brought disillusionment and many failures and the brokers decreased in number and prosperity. Bank managers all of a sudden discovered that they were a nuisance to their customers and ordered the hamsals to clear their steps, and the police drove them from pillar to post. They had to shift from place to place, and wherever they went, through sheer habit they overflowed into the streets, till in 1874, in a street that is now appropriately called Dalal Street after their name, they found a place where they could conveniently assemble; the place where they so assembled was the office of The Advocate of India.

4.4 It was in those troublous times between 1868 and 1875 that brokers organised an informal association, and finally, as recited in the Indenture constituting the Articles of Association of the Exchange, "on or about the ninth day of July one thousand eight hundred and seventy five a few native brokers doing brokerage business in shares and stocks resolved upon forming in Bombay an association for protecting the character, status and interest of native share and stock brokers and of providing a hall or building for the use of the members of such Association".

4.5 At a meeting held in the Brokers' Hall on the 5th day of February, 1887, it was resolved to execute a formal Deed of Association, constitute the First Managing Committee and appoint the first Trustees. Accordingly, an Indenture was executed on the 3rd day of December, 1887, constituting the Articles of Association of the Exchange and the Stock Exchange was thus formally established in Bombay "as a Society to be called the Native Share and Stock Brokers' Association". The Association is now also known alternatively as "The Stock Exchange". The word "Native" in the original title which still survives marked no distinction from a parallel foreign association, for none existed. It was a sign of exclusiveness and pride, and Article II of the Articles of Association specifically declared "that no other persons except natives of India shall be admitted as members of the said Association". The Articles of Association so adopted by the Exchange form, with modifications and amendments, the basis of its government to this day.

4.6 When the Exchange was constituted in 1875, the entrance fee for new members was Rs. 1 and there were 318 members on the list. The number of members increased to 333 in 1896, 362 in 1916 and 478 in 1920, and the entrance fee was raised to Rs. 5 in 1877, Rs. 1,000 in 1896, Rs. 2,500 in 1916 and Rs. 48,000 in 1920.

4.7 At present, there are 504 members and they have the right of nomination, that is, they are entitled to transfer their right of
membership with the approval of the Governing Board. The value of the right of nomination — called a "seat" on the London and New York Stock Exchanges and locally known as a "Card" - has fluctuated according to the ebb and flow of market activity. The price was Rs. 1,800 in 1910 before the First World War, Rs. 48,111 in 1920 during the post First World War Boom, Rs. 6,700 in 1932 during the Great Depression, Rs. 64,000 in 1946 during the post Second World War Boom and Rs. 14,000 in 1954 during the slump that followed the War Boom, while ten years later the value was in the neighbourhood of Rs. 32,000.

CONSOLIDATION OF THE STOCK EXCHANGE AT BOMBAY

5.1 The organisation of the Stock Exchange at Bombay coincided with the recovery from the seven-year depression following the Share Mania of 1861-65. The enterprises promoted by the first generation of brokers, although they ruined the shareholders, were grand conceptions of genius before their time, the fulfilment of which we only see today.

Awakening from these grand dreams, the capitalists and the Bombay brokers steadily promoted after 1872 only those enterprises which were useful and remunerative, such as mills, presses and mining companies. A new departure in commerce and industry was thus taken, credit was restored and prosperity came back to Bombay with the firm establishment of the cotton industry, the building of new docks and the extension of railway facilities for transport of goods.

5.2 The Stock Exchange played an important part in these new developments. The object of forming an association with fixed rules for conduct and settlement of business was "to facilitate the negotiation of the sale and purchase of joint stock securities promoted throughout the Presidency of Bombay. In this the Association entirely succeeded. Outside it, no securities could be negotiated, purchased or sold". In those days, "it was very difficult to float a public Company and secure large amounts of capital subscribed. It must be mentioned to the credit of the brokers that they always tried their best to popularise the new

issues to enable the Companies to secure the necessary capital. "The Stock Exchange thus channelled the flow of investment into stocks, shares and gilt edged securities and materially helped Government and trade and industry.

5.3 As the Exchange grew in size, so did its accommodation. The premises taken in 1874 in Dalal Street on a rent of Rs. 130 per month were given up when what is now known as the Stock Exchange Old Building situated at Dalal Street was acquired for Rs. 97,000 in 1895. In the central court-yard of these premises and in what is now the Brokers' Hall flourished two sturdy peepal trees, which still survive. The Brokers' Hall was thrown open on the 18th of January, 1899, by Mr. James M. Maclean, M.P., previously an editor of the Bombay Gazette, and in the course of his inaugural address he declared:

"A Bombay native broker is a very useful member of the society, whose virtues are not sufficiently recognised, although his faults are emblazoned forth. With rare exceptions, he is honest to the backbone and pays up for his own misfortunes or the defaults of his customers to the last pie.... Without doubt this is the largest Rupee Paper Market in India, whether as regards the volume of business or the extent of the fluctuations. The Bombay Port Trust and the Bombay Municipality are under a debt of gratitude to them for raising their credit to enable them to borrow at the lowest rates obtaining in India, next to Government Paper. India being the original home of options, a native broker would give a few points to the brokers of the other nations in the manipulations of puts and calls ....... A native broker has borne a considerable share in the building of the present Bombay.... A portion of the prosperity of Bombay is owing to the mill industry and in its every stride forward the brokers have a considerable share."

5.4 The Exchange was at last comfortably housed, though for a time a crowd of dealers in Government Securities preferred to remain outside. After the First World War, the adjoining Old Building which
had changed hands for Rs. 73,000 in 1913 was bought in 1920 at Rs. 10,30,000 to enlarge the trading hall for transacting the increasing volume of business. In 1928, the premises were further extended by acquiring from the Bombay Municipal Corporation for Rs. 5 lakhs the adjoining plot of land abutting on Apollo Street and flanked by Dalal Street and Hamam Street. A new building was constructed on the site at the cost of another Rs. 5 lakhs and it was thrown open for public use on the 1st December, 1930. The process of extension, adaptation and renovation is not yet over. Lately, the surrounding property has been absorbed and the entire Stock Exchange properties are proposed to be rebuilt to provide for the constant growth of the institution. All the while, the two peepal trees on the Stock Exchange premises stand silent witness. The trees shed their leaves every autumn and the foliage is green again in spring a perennial symbol so characteristic of the cyclical stock market fluctuations.

5.5 And so the Stock Exchange at Bombay has continued to expand in size and grow in its stature and influence. It is not only the oldest Stock Exchange but also the oldest trade association in the country. Among the eight Stock Exchanges recognised by the Government of India under the Securities Contracts (Regulation) Act, 1956, it was the first one to be recognised and it is the only one that has been granted the privilege of permanent recognition. Likewise, it is acknowledged to be the best organised and the largest be it as a market for gilt-edged securities or for new issues of capital; or in regard to the paid-up capital and market value of listed securities or the average size of listed companies; or from the point of view of turnover, price continuity, liquidity and negotiability, in all of which it enjoys outstanding pre-eminence. The primacy of the Stock Exchange at Bombay places it at the heart of the capital market. The Exchange thus helps materially to make Bombay "the chief centre of the money and capital markets" and contributes in no small measure to the importance of the city as "the financial capital of India"**.

***The Bombay Money Market by H.T. Perakh, p. 2.

6.1 The cotton textile industry which established the primacy of Bombay also contributed to the development of Ahmedabad as the next important city in the Bombay Presidency. After 1880, a number of mills were set up in Ahmedabad and it rapidly forged ahead. Soon the need arose for trading in the shares of those units which were incorporated as joint stock companies. The businessmen of Ahmedabad had inherited a tradition for dealings in stocks and shares. Many of them had actively participated in the share mania of 1861-65 in Bombay and in fact a number of Bombay brokers hailed from Ahmedabad and neighbouring places where they had their homes and where their families resided. Accordingly, as new textile mills were floated, Ahmedabad brokers canvassed subscriptions for the capital issues of those new Companies, and in return were remunerated by commission in the Managing Agency shares of the Companies. The volume of business steadily grew until in 1894, the brokers formed themselves into an Association under the name and style of "The Ahmedabad Share and Stock Brokers' Association".

6.2 The Exchange was organised as a voluntary non-profit-making association with a Trust Deed and a Deed of Association on the same lines as the Stock Exchange in Bombay. It followed the Bombay rules and practices and not a few of the members and their relatives were members of the Bombay Exchange. This close correspondence has been maintained ever since. The Ahmedabad market centred its business in the shares of local textile mills and of the Managing Agency Houses controlling those Companies. After the First World War, a substantial increase in its trading volume led the Exchange to hire a building in the Manek Chowk area where the members used to congregate and trade under the open sky. Business continued to expand and the Exchange thereupon purchased a nearby property and constructed its own building in the 1920's at a cost of Rs. 3, 60,000. In 1950, it again acquired another adjoining property for Rs. 70,000.
6.3 The process of expansion continues. At present, out of its 461 members, only about 160 are active, but the indications are that the Ahmedabad Exchange will grow in size and importance as Ahmedabad is now the capital city of the new Gujarat State.

FOUNDATION OF THE CALCUTTA STOCK EXCHANGE ASSOCIATION

8.1 The Stock Exchanges at Bombay and Ahmedabad were well set up as properly organised associations at the commencement of the 20th century, but the Calcutta Stock Exchange was not so constituted. At that time, the only large organised industries on a stable footing were the cotton mill industry of Western India, the jute industry of Bengal and the coal and mining industry in Bihar, Orissa and Bengal. What the cotton textile industry was to Bombay in the West, the jute industry was to Calcutta in the East.

8.2 Jute mills were beginning to spring up on the banks of the Hooghly when Bombay was in the grip of the Specie Mania in 1861-65. These were also boom years in Calcutta, and in 1864 there were some 91 joint stock companies in which business was being done. Of these, the largest group was teas consisting of 38 Companies. The coal section was represented by Bengal, Beerbhoom, East Indian, Equitable and another Company, while the miscellaneous group included several steam tug Companies. Jute mills attained an important place in the trading list in the following years and in the 1870's there was a sharp boom in jute shares.

8.3 The boom in jute shares was followed by a boom in tea shares in the 1880's and 1890's. As the century drew to a close, the 4% Government Paper (converted into 3½% Government Paper in 1901) was an important market leader in Calcutta and the major industrial groups were teas, jutes and coals. Among miscellaneous shares, India Generals were one of the most popular and had a large following in the market.

8.4 A few years after the turn of the century, there was a coal boom in Calcutta, and between 1904 and 1908, coal shares staged a remarkable rise. Burrakur which was quoted at Rs. 85 in 1902 jumped up to Rs. 540 in 1908, Bengal. Nagpur from Rs. 22 to Rs. 104, Raneeegur from Rs. 11½ to Rs. 43½, Gopalichuck from Rs. 21½ and New Beerbhoom and Reliance Coal from Rs. 167 and Rs. 160.

III ~ 1901-1913

BEGINNINGS OF THE SWADESHI MOVEMENT

7.1 In the beginning of the 20th century, the industrial revolution was on the way in this country. Its first outposts had already been planted in the middle of the 19th century. There was then a revolution in transport and means of communications with the building up of a network of railways, roads and telegraphs. A new form of industry was also established in the Plantations operated by the tea, coffee and indigo Estates. Then followed two of the most important industries in India — the cotton mill industry in Bombay financed by Indian capital and enterprise and the jute industry in Bengal dominated by the Europeans. The industrial revolution thereafter spread to the mining and other miscellaneous industries such as coal, manganese, gold and mica, rice mills, oil mills and the rest.

7.2 The opening years of the 20th century saw the birth of the 'swadeshi' movement. The institution of the Indian Industrial Conference in 1905 in association with the Indian National Congress was the first definite sign of an alliance between economic and political discontent. The 'swadeshi' movement let loose a great wave of industrial enthusiasm in the country and an important stage in industrial advancement under Indian enterprise was reached with the inauguration of the Tata Iron & Steel Co., Ltd., in 1907. These developments were portents of the industrial progress to come and of the part to be played by the Stock Exchanges.
to the equivalent of Rs. 615 and Rs. 500 respectively. Dazzled by the running rise in prices, many persons who had never held or dealt in shares before were attracted to the Stock Exchange as moths to a candle. Hectic buying all round raised prices to the roof and built up a vulnerable position. At last, the boom broke in 1908 and a severe depression followed.

8.5 Many new entrants, who had taken to share business during the boom, were strangers to the market and its traditions and devoid of all knowledge of its customs and usages. Many of them were a menace to themselves and to the general public and the trade. The crisis that followed the boom provoked endless differences and disputes among these brokers and ultimately led to a communal riot in May 1908. It was then realised that an organised body was necessary for the mutual protection and safety of the brokers and the trade. And so it was that on the 15th of June, 1908, an association was formed by some leading brokers under the name and style of "The Calcutta Stock Exchange Association."

CONSOLIDATION OF THE CALCUTTA STOCK EXCHANGE

9.1 When the Calcutta Stock Exchange was founded, it was housed in a new building at New China Bazar Street (later on known as Royal Exchange Place) where accommodation on a twenty year lease was taken on a monthly rent of Rs. 1,080 plus half share of the municipal rates and taxes. These premises were close to the previous venue where stock brokers carried on business under the shade of a Neem tree on the site where now stand the buildings of the Chartered Bank of India. As the end of the lease drew near, the Association acquired in 1926, on a lease of 99 years, a plot at the corner of Lyons Range and Royal Exchange Place. This plot was purchased outright in 1933, but before that, in 1928 a five-storeyed building was constructed to provide larger trading accommodation and to meet the needs of members whose number was greatly enlarged in 1920.

9.2 When the Calcutta Stock Exchange Association was constituted in 1908, the number of founder-members was about 150 as compared to about 50 Indian and 4 or 5 European brokers who traded towards the close of the 19th century. On the 7th of June, 1923, the Association was incorporated as a limited liability company with an authorised capital of Rs. 3 lakhs consisting of 300 shares of Rs. 1,000 each and its membership was then 210. The membership was reconstituted in 1958 when each of the Rs. 1,000 share was split up into four shares of Rs. 250 each and 1,112 such shares were issued to individual members of partnership firms. The number of individual members was 544 in 1959 and 646 in 1964.

9.3 The Exchange had, however, to undergo much stress and strain before its membership so increased. Shortly after its formation in 1908, the severe trade depression that followed on the heels of the coal boom took a heavy toll. Many stockbrokers sustained serious losses and abandoned the trade, while some others defaulted and were expelled. Financial difficulties were then so acute that in the early part of 1910 the Association seriously considered whether it should not wind up its affairs. These difficulties were, however, surmounted because it was recognised that the Calcutta Stock Exchange performed a most useful function as the principal market in Bengal and Eastern India for stocks, shares and securities.

9.4 Even when the Exchange was founded, it had on its list shares of as many as 236 companies, among whom 10 were railways, 19 banks, 26 jute mills, 69 coal companies, 81 tea companies and 31 miscellaneous companies. This gave wide coverage which has more than doubled in the succeeding years and the Calcutta Stock Exchange Association has thus helped in no small measure to make Calcutta what it is today – "the industrial capital of India".
IV - 1914-1939

THE FIRST WORLD WAR BOOM -
EPHEMERAL NEW STOCK EXCHANGES

10.1 On the eve of the First World War, the stock market in India consisted of the three Stock Exchanges at Bombay, Calcutta and Ahmedabad. As hostilities progressed, Europe ceased to produce any manufactured articles except those required for the prosecution of the war. The import of manufactured goods into India stopped almost completely and a boom ensued in all industrial enterprises. Mills, factories and workshops worked round the clock, fabulous profits were earned and large dividends were declared. Cotton and jute textiles, steel, sugar, paper and flour mills and all companies generally enjoyed phenomenal prosperity. Wealth accumulated and the volume of money increased, and the Stock Exchanges "soon became the centre of attraction for all."

10.2 The roaring trade in stocks and shares during the war and post-war boom led to the formation of rival Stock Exchanges in Bombay and Ahmedabad. A new limited company was formed and incorporated in Bombay under the name and style of the Bombay Stock Exchange, Ltd., in December 1917 and an unincorporated body called the Gujarat Share and Stock Exchange was established in Ahmedabad in 1920.

10.3 The Bombay Stock Exchange, Ltd., had on its Managing Committee a number of well-known industrialists and businessmen like Sir Purshottamdas Thakurdas, Sir Chunilal V. Mehta, Sir Ibrahim Rahimtoola, Shri Rameshwandas Birla and others — men of high reputation but not conversant with the working of Stock Exchanges. They claimed that they would introduce reforms in matters in which, it was said, the existing Stock Exchange in Bombay was deficient, "but they found the same impracticable and were unable to move an inch further and they had to close their doors within three years". As Shri Bhulabhai Desai commented in his Minority Report of the Stock Exchange Enquiry Committee of 1923, "For some time past no business is being transacted on the new Exchange and it is now practically a dead institution. The figures relating to the business of the Association point to the same conclusion". An attempt was made to revive the Bombay Stock Exchange, Ltd., in 1922 but it failed. After the passing of the Bombay Securities Contracts Control Act in 1925, it made a last-ditch effort to obtain official recognition under the Act, but Government refused. Thereafter it went into liquidation and wound up its affairs. The fact was that, in spite of highly influential persons, the new Exchange did not command the confidence of the public which continued to support the existing Association.

10.4 Apart from Bombay and Ahmedabad, a new Stock Exchange was also organised in Madras under the name and style of "The Madras Stock Exchange" on the 6th of April, 1920, and in Northern India also Lala Harikishan Lal and others attempted to establish a registered Stock Exchange in the 1920's but did not succeed. The Madras Stock Exchange had 100 members on its rolls when it started and dealt chiefly in mill shares. However, when the boom faded, followed by company failures and a sharp fall in prices in 1921-22, the Madras Stock Exchange became moribund for want of business. By 1923, the number of its members stood reduced from 100 to 3 and so it went out of existence.

FOUNDATIONS OF THE MADRAS STOCK EXCHANGE, LTD

11.1 The war and post-war boom was followed by a world depression in 1930's. The improvement in business conditions and in stock market activity in 1935 was marked by growing public interest in stocks, shares and securities. In South India, there was a rapid increase in the number of textile mills and many new plantation companies were floated. To cater to this expanding trade in plantation and mill shares, a Stock Exchange was organised in Madras on the 4th of September, 1937, under the name and style of the "Madras Stock Exchange Association (Private) Ltd."
11.2 Long before that, some business in stocks and shares was apparently transacted in Madras by a broker or two after the First World War and a Stock Exchange was formed in 1920 only to go out of existence in 1923. In the beginning of 1927, there were two broker firms, one European and the other Indian, and a Bombay firm opened a branch in Madras in that year. Less than a dozen transactions were done by these brokers and reported in the press. In the next quinquennium, a few more brokers joined the trade, and though there was no organized exchange, they helped in the flotation of many electricity companies, textile mills and planting and industrial concerns.

11.3 Up to 1933-34, stock and share business was almost entirely in the hands of two or three European firms and two Indian firms and their daily business was mostly confined to gilt-edged securities and South Indian plantations, the principal interest being in London shares. With the establishment of trunk telephone facilities in 1933, business gradually broadened as South Indian investors became interested in stocks and shares quoted on the Bombay Exchange and Bombay and Calcutta investors developed interest in Madras scrips. A few more Indian firms were started in 1935 by former assistants or constituents of English firms, and business continued to develop.

11.4 When the Madras Stock Exchange was established in 1937, it had 5 members and 8½ companies on its list of officially quoted securities. Since then, with the rapid industrialisation of Madras and the neighbouring States, the Exchange has expanded in membership and in the scope of its activities. It was reorganized as a new company limited by guarantee under the name and style of the Madras Stock Exchange, Ltd., on the 29th of April, 1957, and in May 1961 it acquired a building of its own at a cost of Rs. 2,10,000. The Madras Stock Exchange now has 35 members on its rolls. Its activities are steadily expanding and Companies covering all types of industries, including banks and insurance companies, are on its trading list.

12.1 Apart from the Madras Stock Exchange, rival Stock Exchanges were set up in Bombay and Calcutta in 1937 and 1938 respectively. The steel boom in 1937 stimulated considerable interest in Calcutta, and as prices soared up and the volume of business increased, a number of new entrants invaded the field with a view to exploiting the favourable opportunity and making a fortune for themselves. Accordingly, another Stock Exchange under the name and style of the Bengal Share and Stock Exchange, Ltd., was organized in Calcutta in 1937 with the object of doing forward business in stocks and shares on a monthly settlement basis.

12.2 Very much for the same reasons, and for the second time in the history of Bombay, a new Stock Exchange limited by guarantee was started in February 1938 under the name and style of Indian Stock Exchange, Ltd. It had an influential Board of Directors consisting of well-known businessmen and industrialists like Sir Choonilal B. Mehta, Sir Behram Karanjia and others. Most of them were ineligible for membership of the existing Stock Exchange because its Rules, sanctioned by Government, prohibited members from engaging themselves as principals or employees in any business other than that of stocks and shares. The object of the promoters of the new Exchange therefore was to force themselves into the stock exchange trade by the back-door through the medium of a new association. Apart from these industrialists and businessmen who also wished to become stock brokers and dealers, the membership of the Indian Stock Exchange, Ltd., was drawn at different stages from the speculative elements which had been driven out from the bullion, cotton, seeds and other forward markets after they came under Government control.

12.3 The Indian Stock Exchange, Ltd., had a feverish existence. It functioned sporadically, and whenever it did, its interest was restricted to two or three highly speculative scrips. The Exchange failed to win public support, and its repeated applications for recognition under the Bombay Securities Contra-
13.2 In Ahmedabad where the Ahmedabad Share and Stock Brokers' Association recognised by Government and the Gujarat Share and Stock Exchange already existed, as many as four new Stock Exchanges were set up one after another. Two of them disappeared with equal speed, but the Indian Share and General Exchange Association and the Bombay Share and Stock Brokers' Association established in 1943 managed to survive till 1957-58. In that year, some of their members as well as those of the Gujarat Share and Stock Exchange were absorbed on concessional terms by the Ahmedabad Share and Stock Brokers' Association which was the only Stock Exchange in Ahmedabad recognised by the Central Government under the Securities Contracts (Regulation) Act, 1956.

13.3 In Lahore, which witnessed a great expansion of monetary income during the war, the Punjab Share and Stock Brokers' Association, Ltd., the Lahore Stock Exchange Ltd., the Lahore Central Exchange, Ltd., and the All-India Stock Exchange, Ltd., were set up, and these were in addition to the Punjab Stock Exchange, Ltd., which was established in 1936.

13.4 In Calcutta, over and above the existing Calcutta Stock Exchange Association, Ltd., and the Bengal Share and Stock Exchange Association, Ltd., a third Exchange called the Stock Exchange Association of Bengal, Ltd., was organised.

13.5 In Delhi, two new Stock Exchanges, the Delhi Stock and Share Brokers' Association Ltd., and the Delhi Stocks and Shares Exchange, Ltd., were floated and later, on the 25th of June, 1947, amalgamated into the Delhi Stock Exchange Association, Ltd.

13.6 Two more Stock Exchanges were also formed. The U.P. Stock Exchange, Ltd., was incorporated in Cawnpore in 1940 and the Nagpur Stock Exchange, Ltd., was organised in Nagpur. In Indian States, the Hyderabad Stock Exchange, Ltd., was incorporated in Hyderabad in 1944 as a company limited by guarantee and recognised under the Hyderabad
Securities Contracts Control Act which was enacted in that year on the lines of the Bombay Securities Contracts Control Act of 1925. A small Stock Exchange also sprang up in Bangalore City in Mysore State.

13.7 Most of these new Stock Exchanges had a membership ranging from 20 to 100 but the Bombay Share and Stock Brokers' Association had more than 715 members. Among members of these Exchanges were businessmen, lawyers, bankers and others, but active members were few and the volume of business not considerable. While some of the Exchanges claimed to be concerned exclusively with stock and share dealings only, others were more forthright in permitting their members to deal in other commodities like cotton, bullion or oilseeds. Most of these Exchanges carried on forward trading either openly or in the guise of cash or ready delivery transactions, and in the absence of any listing regulations, dealings were allowed in all and sundry shares which had a speculative appeal.

13.8 This mushroom growth of Stock Exchanges fed on the war time boom and suffered almost a total eclipse in the aftermath of depression. The Exchanges in Lahore closed down during the holocaust which followed the partition of the country and later one of them migrated to Delhi where it was merged with the Delhi Stock Exchange. Most of the other Stock Exchanges withered away or languished till 1957 when they applied to the Central Government for recognition under the Securities Contracts (Regulation) Act, 1956. Only the established Stock Exchanges in Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore were recognised under the Act. Some of the members of the other Associations were required to be admitted by the recognised Stock Exchanges on a concessional basis, but acting on the principle of unitary control, all these pseudo Stock Exchanges were refused recognition by the Government of India and they thereafter ceased to function or to exist. The Bangalore Stock Exchange, Ltd. was registered subsequently in 1957 and recognised in 1963. Eleven more stock exchanges were recognised by Government under the Securities Contracts (Regulation) Act, 1956 - the Cochin Stock Exchange, Ltd. in 1960, the Uttar Pradesh Stock Exchange Association, Ltd. (at Kanpur) and Pune Stock Exchange, Ltd. in 1982, the Ludhiana Stock Exchange Association, Ltd. in 1983, the Gauhati Stock Exchange, Ltd. in 1984, the Kanara Stock Exchange, Ltd. (at Mangalore) in 1985, the Megad Stock Exchange Association (at Patna) in 1986, the Jaipur Stock Exchange, Ltd., the Phubaneswar Stock Exchange Association, Ltd., the Saurashtra Kutch Stock Exchange, Ltd., in 1989 and the Vadodara Stock Exchange, Ltd. (at Baroda) in 1990. A Stock Exchange under the name and style of The Sikkim Stock Exchange Association Ltd., was established at Gangtok, Sikkim in 1985. No official recognition has been sought for this Exchange under the Securities Contracts (Regulation) Act, 1956 as the jurisdiction of this Act has not so far been extended to the State of Sikkim. An Over-the-Counter (OTC) Exchange India at Bombay promoted jointly by the ICICI, UTI, SBI Capital Markets Ltd., Canbank Financial Services, Ltd., GIC and LIC was approved for a period of 5 years by Government in August 1989.

THE STOCK MARKET TODAY

14. The stock market in India is more than a century old and it had functioned continuously through the medium of organised Stock Exchanges. At present, there are nineteen such Stock Exchanges in India recognised by Government under the Securities Contracts (Regulation) Act, 1956. They are at Ahmedabad, Bangalore, Baroda, Bhubaneswar, Bombay, Calcutta, Cochin, Delhi, Gauhati, Hyderabad, Indore, Jaipur, Kanpur, Ludhiana, Madras, Mangalore, Patna, Pune and Rajkot. These recognised Stock Exchanges operate under the Rules, Bye-laws and Regulations approved by Government and they constitute an organised capital market for securities issued by the Central and State Governments, public bodies and joint stock companies.
REGULATION

THE ATLAY COMMITTEE

1.1 The earliest legislation relating in a sense to the stock market was introduced in the nineteenth century. The Government of Bombay then passed Act XXVIII of 1865 to deal with the situation arising out of the Share Mania of 1860-65 which followed the outbreak of the American Civil War. This special Act had no significant influence on the subsequent legislation.

1.2 The next step was taken after the First World War and the post war boom. There was a spate of corners in Bombay which attracted public notice. Lord Lloyd, the then Governor of Bombay, therefore proposed the formation of a Committee of Appeal or Control, consisting of a member or two of the Exchange and other outside representatives, to supervise the management of the Association. The Exchange, however, refused "any sort of control or interference from outsiders who would not be conversant with the working of the Stock Exchange or who might during times of boom abuse their position on the Exchange and rob wealthy investors and grind down the poor, as was done by well-known persons during the last boom". This refusal led to the appointment of the Atlay Stock Exchange Enquiry Committee on the 14th of September, 1923.

1.3 The Committee's Minority Report written by Shri Bhulabhai Desai vindicated the position of the Stock Exchange in regard to corners, and in turn was vindicated by facts and subsequent events. The Minority Report held it "proved by the evidence recorded before us (and there is no evidence to the contrary) that the majority, if not all, of the corners in recent times were entirely due to capitalist interests attempting to squeeze the members of the Association or their unwary clients". The Minority Report also expressed the view, which later turned out correct, that "within a short time one will hear as little of corners in the Bombay market as of the ruinous speculation which reigned in the boom period".

1.4 On the second main question that there should be constituted a controlling authority on which the various commercial associations of Bombay should be represented both the Majority and Minority Reports were unanimous. They agreed that the suggestion was not feasible, as it would be difficult to find men of the requisite skill and experience.

1.5 The only other major recommendation of the Atlay Committee was in the matter of Stock Exchange Rules and Regulations. Before 1924, the chief weakness of the Bombay Exchange was in the chaotic condition of its Rules. The Atlay Committee remedied the defect by codifying the Rules, Bye-laws and Regulations. It was a reform of lasting value.

OFFER OF GOVERNMENT CHARTER

2.1 In its Report, the Atlay Stock Exchange Enquiry Committee had stressed and emphasised the necessity of the Stock Exchange framing and maintaining a systematic and settled body of Rules and Regulations in the interests of the general investing public and of the trade itself. In pursuance of this strong recommendation, the Government of Bombay offered a Charter to the Bombay Exchange on the 21st of July, 1925.

2.2 The Charter did not visualise any direct control of the Exchange; what Government sought to do thereby was to assume authority to control the rule-making power of the Exchange and in return to grant it by Charter a monopoly of organised trading in securities. The President and the other two representatives who had carried on negotiations with Government urged the Exchange to accept the Charter; but the Exchange, fearing official tyranny in matters of free monetary trade, turned down the offer on the 25th of August, 1925. It was a grievous mistake.

2.3 The rejection of the Charter compelled the Government of Bombay to initiate special legislation. The second thought of the members of the Bombay Exchange that the Charter should be accepted came all too late.
THE BOMBAY SECURITIES CONTRACT CONTROL ACT, 1925

3.1 A special legislation for controlling Stock Exchanges was enacted for the first time in India when the Bombay Securities Contracts Control Act, 1925, was passed by the Bombay Legislative Assembly on the 29th of October, 1925; it came into force in Bombay from the 1st of January, 1926.

3.2 The Act empowered Government to grant recognition to a Stock Exchange and to withdraw such recognition. It also provided that the Rules of a recognised Stock Exchange could only be made or amended subject to prior Government approval.

3.3 The Bombay Exchange applied for recognition under the Act and submitted a complete set of Rules and Regulations for Government approval. The Exchange was duly granted statutory recognition and its Rules were sanctioned by Government on the 14th of May, 1927. The Ahmedabad Share and Stock Brokers’ Association was recognised under the Act on the 1st of May, 1939, and before sanction its rules were remodelled on those of the Bombay Exchange.

3.4 The Bombay Securities Contracts Control Act remained in force till the Securities Contracts (Regulation) Act, 1956, enacted by the Central Government came into operation on the 20th of February, 1957. However, the Bombay Act proved ineffective in regulating security trading, and Government control thereunder was nominal, amounting to practical non-interference.

3.5 The Act defined the term "ready delivery contract" as meaning one for the performance of which no time was specified and which had to be performed within a reasonable time. This definition was found to be vague and ambiguous. The Act was also defective in its principal provision that contracts for purchase and sale of securities, other than those for ready delivery, would be void in law if not entered into through or between members of recognised Stock Exchanges in accordance with the Rules sanctioned by Government. If the Act was to be effective, such contracts should have been declared not only void but also illegal, as it is permissible in law for agents to claim on void contracts on the basis of indemnity; and further, a specific short period of time should have been prescribed for performance of ready delivery contracts.

THE BOMBAY FORWARD CONTRACTS CONTROL ACT, 1947

4.1 The defects of the Bombay Securities Contracts Control Act were rectified in a Bill that was drafted in 1939. The Bill aimed at uniform control of all forward markets in Bombay, but before it could be introduced in the legislature, the Congress Government then in office resigned. The Bill was revived in 1947, but with certain misconceived alterations and it was passed into an Act in that year. The Bombay Forward Contracts Control Act, 1947, as it is called, was applied to cotton, bullion and seeds. Its operation was not extended to stocks and shares because of objections raised by the Bombay Exchange.

4.2 Subsequently, under the new Constitution of India which came into force in 1950, futures markets and stock exchanges became an exclusively Union subject. In due course, appropriate Central legislation, based largely on the original principles of the Bombay Forward Contracts Control Act, 1947, was enacted for commodity markets in 1952 and for stock exchanges in 1956.

DEFENCE OF INDIA RULE 94-C

5.1 Prior to 1956, Central legislation was attempted by Government during the Second World War when the Defence of India Rule 94-C was promulgated in 1943. Its professed object was "to counter speculative operations". As it was felt that there was an "increase in speculative activity", the Defence of India Rule prohibited stock exchanges from offering facilities for carry-over transactions and other than ready delivery transactions — ready delivery transactions being defined as those which had to be fulfilled by delivery and payment within seven days of the date of contract.
5.2 The Defence Rule which was issued by Government without in any way consulting the stock exchanges was mistaken in its operation. It established a one-way market in which bonafide sellers laboured under a handicap while speculative buyers were encouraged. It thus penalised the bonafide sellers of shares and favoured the bulls whose activities were partly responsible for the speculative rise in prices. Not only was the market mechanism distorted in this manner, but also the ill-conceived ban on the provision of normal and necessary trade facilities had the effect of driving out stock and share business from the organised Stock Exchanges into the streets and mushroom markets.

5.3 The Defence of India Rules automatically lapsed in September 1946 and so ended the first experiment by Government in Central legislation.

DEPARTMENTAL COMMITTEE (1948)

6. In view of its unfortunate experience of Defence of India Rule 94-C, Government proceeded with circumspection before introducing more permanent legislation. It took no official notice of what passed for a report on the regulation of the stock market in India that was presented in July 1947 by an inexperienced Economic Adviser to the Ministry of Finance. Instead, Government appointed in May 1948 a Departmental Committee to submit a report on suitable legislation for regulation of Stock Exchanges in India. The Departmental Committee submitted its report in August 1948, in course of which it expressed the view that legislation for stock exchanges should be finalised only after holding a conference of the representatives of the Central Government, the State Governments concerned and the Reserve Bank as well as the Presidents or other representatives of the leading Stock Exchanges.

GORWALA COMMITTEE

7. On the 26th of January, 1950, the new Constitution of India came into force and under Item 48 of the Union List "stock exchanges and futures markets "became exclusively a Central subject. In the following year, a draft Bill for stock exchange regulation was prepared by Government, partly on the basis of the draft suggested by the Departmental Committee of 1948 but more broadly on the lines of the Forward Contracts (Regulation) Bill, 1950, for controlling commodity exchanges that was then pending before the Lok Sabha. The draft Stock Exchange Bill was referred by Government to an Expert Committee under the chairmanship of Shri A.D. Gorwala. The Committee, on which the Bombay, Calcutta and Madras Stock Exchanges were represented by their Presidents, submitted its report on the 14th of July, 1951.

THE SECURITIES CONTRACTS (REGULATION) ACT, 1956

8.1 An official Bill called the Securities Contracts (Regulation) Bill, 1954, prepared on the lines of the draft recommended by the Gorwala Committee was introduced in the Lok Sabha on the 24th of December, 1954. On the 28th of November, 1955, and 5th of December, 1955, the Bill was referred by the Lok Sabha and Rajya Sabha respectively to a Joint Committee which presented its Report on the 29th of February, 1956. The Bill as amended by the Joint Committee was passed with some amendments by the Lok Sabha on the 16th of July, 1956, and by the Rajya Sabha on the 6th of August, 1956.

8.2 The Securities Contracts (Regulation) Act, 1956, as it is called, was assented to by the President and published in the Gazette of India on the 4th of September, 1956. By a notification published in the Gazette of India on the 16th of February, 1957, the Act came into force throughout India on the 20th of February, 1957.

RECOGNISED STOCK EXCHANGES

9.1 The Securities Contracts (Regulation) Act, 1956, permits only those stock exchanges which have been recognised by the Central Government to function in any notified State or area. The recognised Stock Exchanges are thus placed in a privileged position, but at the same time the Act vests in Government wide powers of supervision and control.
9.2 An Exchange is recognised only after Government is satisfied that its Rules and Bye-laws conform to the conditions prescribed for ensuring fair dealings and protection of investors. Government has also to be satisfied that it would be in the interest of the trade and public interest to grant such recognition.

9.3 The Rules of the recognised Stock Exchange relating in general to the constitution of the Exchange, the powers of management of the governing body and its constitution (including the appointment thereon of not more than three Government nominees), the admission of members, the qualifications for membership, the expulsion, suspension and re-admission of members, the registration of partnerships and the appointment of authorised representatives and clerks must be duly approved by Government. These Rules can be amended, varied or rescinded only with the previous approval of Government. Likewise, the Bye-laws of the recognised Exchange providing in detail for the regulation and control of contracts in securities and for every aspect of the trading activities of members must also be sanctioned by Government and any amendments or modifications must be similarly approved. Government's authority extends much further. It is empowered by the Act to make or amend suo moto any Rules or Bye-laws of a recognised Stock Exchange if it so considers desirable in the interest of the trade and in the public interest.

9.4 The Act arms Government with even more drastic powers – the power to make inquiries into the affairs of a recognised Stock Exchange and its members, to supersede the governing body and take over the properties of a recognised Exchange, to suspend its business, and lastly to withdraw the recognition granted to an Exchange, should such steps be deemed indispensable in the interest of the trade and in the public interest. Government has thus complete control over the recognised Stock Exchanges.

LICENCED DEALERS

10. The recognised Stock Exchanges are the media through which Government regulation of the stock market is made effective. Where there are no stock exchanges, the Securities Contracts (Regulation) Act, 1956, empowers Government to licence dealers in securities and prescribe the conditions subject to which they carry on the business of dealing in securities.

ILLEGAL AND VOID CONTRACTS

11.1 The crux and centre of the Securities Contracts (Regulation) Act is in its provision that, in any notified State or area, all contracts in securities (other than spot delivery contracts) which are not entered into through, with or between members of recognised Stock Exchanges shall be illegal and punishable with fine or imprisonment or both. Equally important is the provision that in any notified State or area all contracts in securities entered into in contravention of certain specified Bye-laws of a recognised Stock Exchange shall be void and unenforceable at law as respects the rights of the members of the recognised Stock Exchange who have entered into such contracts and also as respects the rights of any other persons who have knowingly participated in the transactions entailing such contravention.

11.2 In order to prevent undesirable speculation, the Act further empowers Government to declare that no contract for the sale or purchase of specified securities shall be entered into in any notified State or area except to the extent and in the manner prescribed in the notification. Option business is also totally prohibited and all options in securities are made illegal under pain of fine and imprisonment.
OTHER IMPORTANT PROVISIONS

12. The Act contains other important provisions. It imposes certain restrictions on the right of the equitable holders of shares to recover dividend from the registered holder and confers on Government the authority to compel any public company to have its shares listed on a recognised Stock Exchange by complying with such requirements as may be prescribed for the purpose.

SEcurities Contracts (Regulation) RULES, 1957

13. Under the Act, Government has promulgated the Securities Contracts (Regulation) Rules, 1957, for carrying into effect the objects of the legislation. These rules provide, among other things, for the procedure to be followed for recognition of stock exchanges; submission of periodical returns and annual reports by recognised stock exchanges; inquiry into the affairs of recognised stock exchanges and their members; and requirements for listing of securities. The rules are statutory and they constitute a code of standardised regulations uniformly applicable to all the recognised stock exchanges.

PATEL COMMITTEE

14.1 A high-powered 12-member committee under the Chairmanship of Shri G.S. Patel, former Chairman of the Unit Trust of India, was set up by the Union Government on 17th May, 1984 to make a comprehensive review of the functioning of the Stock Exchanges and make recommendations. Besides Shri Patel, the Committee consisted of Shri D.R. Mehta, joint Secretary of the Department of Economic Affairs, Shri S.M. Dugar, Member of the Company Law Board, Dr. S.A. Dave, Executive Director of the Industrial Development Bank of India, Shri S.S. Nadkarni, Chairman and Managing Director of the Industrial Credit and Investment Corporation of India (ICICI), Dr. D.H. Pai Panadiker, Secretary General of the Federation of Indian Chambers of Commerce and Industry, Shri K.V. Shanbhogue, President of the Institute of Company Secretaries of India, Shri M.J. Pherwani, Chairman of the Unit Trust of India, Shri M.R. Mayya, Executive Director of Bombay Stock Exchange, Shri E.R. Krishnamurthy, Executive Director of Madras Stock Exchange and Dr. L.C. Gupta, Dean of Development Banking Centre, Shri Paul Joseph, Joint Director in the Department of Economic Affairs, acted as the member - secretary of the Committee.

14.2 The terms of reference of the committee were:

(a) to examine the general functioning of the stock exchanges as an integral part of the financial system;

(b) to suggest measures to improve overall service to the investors by the members of stock exchanges and to encourage small investors particularly in semi-urban and rural areas to invest in industrial securities with a view to mop up a larger volume of capital for productive investments;

(c) to look into the existing system of organisation and management of stock exchanges with view to broaden it so as to make it representative of all concerned interests, and to suggest a uniform model of organisation;

(d) to examine the existing procedures relating to stock transactions with a view to simplification and minimising delays;

(e) to look into the existing system of membership of stock exchanges with a view to facilitate periodic increase in membership and to evolve a system of agents of stock exchanges;

(f) to look into the existing system of bye-laws and regulations of stock exchanges relating to trading in securities and to suggest measures with a view to ensure smooth functioning of stock exchanges so that they are not disrupted by recurring crises and that they are able to efficiently handle a much larger volume of securities;
g) to examine the existing system of rules and regulations relating to listing of securities in stock exchanges and the listing agreement between companies and stock exchanges;

h) to suggest measures to minimise the cost of public issue of capital;

i) to suggest a code of conduct for members of stock exchanges to safeguard the interests of investors and the members and to suggest guidelines for creation of a customers' protection fund and insurance of membership.

j) to suggest methods for acquisition/ construction of the premises for stock exchanges and the manner of its financing; and,

k) to make suggestion on any other matter which is relevant to the above for further development of stock exchange activities.

14.3 After deliberations which lasted more than a year, the Committee submitted its report to the Union Finance Ministry on 10th December, 1985. In the light of the recommendations made by the Committee in their interim reports, Government issued several guidelines and directives to the Stock Exchanges relating to matters such as bringing down the cost of public issue of securities, listing of securities as the Stock Exchanges, creation of a Customers' Protection Fund and insurance cover for members of Stock Exchanges.

SECURITIES AND EXCHANGE BOARD OF INDIA

15.1 While presenting the Budget for 1986-87, the Prime Minister, who also held the finance portfolio, announced the decision of the Government to set up a separate Board for the regulation and orderly functioning of stock exchanges and the securities industry. Accordingly, the Securities and Exchange Board of India (SEBI) was constituted by the Government of India on April 12, 1988 to promote orderly and healthy development of the securities markets and to provide adequate investor protection. Dr. S.A. Dave, formerly Executive Director, Industrial Development Bank of India, has been appointed as the Chairman of SEBI. The Board has its headquarters in Bombay and its office is at Mittal Court, B' Wing Nariman Point, Bombay- 400 021.

15.2 The Securities and Exchange Board would seek to create an environment to facilitate mobilisation of adequate resources through the securities markets. This environment includes rules and regulations, institutions and their inter-relationships, instruments, practices, infrastructure and policy framework. These objectives are proposed to be accomplished by being responsive to the needs of the three groups which basically constitute the market, viz., the issuers of securities, the investors and the market intermediaries. To the issuers, it should afford a market place in which they can confidently look forward to raising all finance they need in an easy and efficient manner; to the investors, it should provide a high degree of protection of their rights and interests through adequate, accurate and authentic information and disclosure of information on a continuous basis; to the intermediaries, it should offer a competitive, professionalised and expanding market with adequate and efficient infrastructure so that they are able to render better service to the investors and the issuers.

15.3 The first task of the Board is to evolve a comprehensive legislation covering all aspects of the securities markets in an integrated framework. It would consolidate and rationalise existing legislation and extend regulatory purview to areas where it is needed but does not exist. The new framework will aim at better investor safeguards through improved disclosure requirements, accounting standards, compensation and arbitration, small investors' protection fund, steps against insider trading and other market malpractices.

15.4 The Board, to begin with, has been formed as a non-statutory body to serve as a precursor to the proposed Statutory Board. The necessary bill to give it a statutory status is proposed to be introduced in Parliament very
soon. The Board shall deal with all matters relating to the development and regulation of securities markets and investor protection, and advise Government on these matters; prepare comprehensive legislation for the regulation and development of securities market; and carry out such functions as may be delegated by the Central Government for the development and regulation of securities markets.

CONCLUSION

16. The Securities Contracts (Regulation) Act, 1956, thus sets up a general framework of control which makes Government influence all-pervasive. At the same time, as an enabling legislative measure, the Act provides Government with a flexible apparatus for the regulation of the stock market in India.
<table>
<thead>
<tr>
<th>RECOGNISED STOCK EXCHANGES</th>
<th>ORGANISATION</th>
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<tbody>
<tr>
<td>1. The Stock Market in India is regulated under the Securities Contracts (Regulation) Act, 1956. At present, there are nineteen Stock Exchanges recognised by Government under the Act. They are at Ahmedabad, Bangalore, Baroda, Bhubaneswar, Bombay, Calcutta, Cochin, Delhi, Gauhati, Hyderabad, Indore, Jaipur, Kanpur, Ludhiana, Madras, Mangalore, Patna, Pune and Rajkot. The Bombay Exchange was granted permanent recognition at the first instance. The other exchanges were given, in the first instance, official recognition for a period of five years and at the end of each term the recognition was renewed for a like period. The exchanges at Calcutta, Delhi, Madras, Ahmedabad, Hyderabad, Indore and Bangalore have now been granted permanent recognition. The organisation of these recognised Stock Exchanges is reflected in the Table given on the ninth page.</td>
<td></td>
</tr>
<tr>
<td>3.2 Under the constitution, the governing body has the power to admit and expel members; to warn, censure, fine and suspend members and their partners, attorneys, remisiers, authorised clerks and employees; to approve the formation and dissolution of partnerships and appointment of attorneys, remisiers and authorised clerks; to enforce attendance and information, adjudicate disputes and impose penalties; to determine the mode and conditions of stock exchange business and regulate stock exchange trading in all its aspects; and generally to supervise, direct and control all matters and activities affecting the Stock Exchange.</td>
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**MEMBERSHIP**

4.1 The regulations governing the admission of members of the recognised Stock Exchanges are uniform in terms of the provisions of the Securities Contracts (Regulation) Rules, 1957. These statutory Rules provide that no person shall be eligible to be elected as a member if he is less than twenty-one years of age; or is not a citizen of India; or has been adjudged bankrupt or proved to be insolvent or has compounded with his creditors; or has been convicted of an offence involving fraud or dishonesty; or is engaged as principal or employee in any business other than that of securities; or a member of any other association in India where dealings in securities are carried on; or is a director, partner or employee of any company whose principal business is that of dealing in securities.

**GOVERNING BODY**

4.2 Firms and companies were hitherto not eligible for membership of a recognised Stock Exchange. Steps are now being taken to enlist financial institutions and corporate bodies as members of a recognised Stock Exchange. The enrolment of financial institutions and corporate bodies as members of recognised Stock Exchanges would ensure professionalisation of stockbroking and better services to the investors. Individuals are ordinarily not deemed to be qualified unless they have had at least two years’ market experience as an apprentice or as a partner or authorised assistant or authorised clerk or remisier of a member.
<table>
<thead>
<tr>
<th>Name of Stock Exchange</th>
<th>Year of Establishment</th>
<th>Type of Association</th>
<th>Recognition Date</th>
<th>Permanent Date</th>
<th>Entrance Fee/Par Value of Share Rs.</th>
<th>Membership Security Deposit Rs.</th>
<th>Annual Subscription Rs.</th>
<th>No. of Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bombay</td>
<td>1875</td>
<td>Voluntary non-profit-making association of persons</td>
<td>31.8.1957</td>
<td>--</td>
<td>2,00,000</td>
<td>5,000</td>
<td>555</td>
<td></td>
</tr>
<tr>
<td>Calcutta</td>
<td>1908 (Incorporated in 1923)</td>
<td>Public Limited Company</td>
<td>10.10.1957</td>
<td>14.4.1960</td>
<td>5,000</td>
<td>2,00,000</td>
<td>3,000</td>
<td>650</td>
</tr>
<tr>
<td>Madras</td>
<td>1937 (Recognised 29.4.1957)</td>
<td>Company Limited by Guarantee</td>
<td>15.10.1957</td>
<td>15.10.1982</td>
<td>25,000</td>
<td>50,000</td>
<td>2,000</td>
<td>168</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>1894</td>
<td>Voluntary non-profit-making association of persons</td>
<td>16.9.1957</td>
<td>16.9.1982</td>
<td>--</td>
<td>75,000</td>
<td>2,000</td>
<td>299</td>
</tr>
<tr>
<td>Delhi</td>
<td>1847</td>
<td>Public Limited Company</td>
<td>9.12.1957</td>
<td>9.12.1982</td>
<td>4,000</td>
<td>1,00,000</td>
<td>3,000</td>
<td>321</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>1943</td>
<td>Company Limited by Guarantee</td>
<td>29.9.1958</td>
<td>29.9.1983</td>
<td>25,000</td>
<td>50,000</td>
<td>2,000</td>
<td>112</td>
</tr>
<tr>
<td>Bangalore</td>
<td>1957</td>
<td>Incorporate as a PVT. Ltd. Company &amp; Converted into a Pub. Ltd. Co. on 3.4.1982</td>
<td>16.2.1963</td>
<td>16.2.1983</td>
<td>1,000</td>
<td>50,000</td>
<td>2,000</td>
<td>126</td>
</tr>
<tr>
<td>Cochin</td>
<td>1978</td>
<td>Public Limited Company</td>
<td>10.5.1979</td>
<td>years 5</td>
<td>--</td>
<td>5,000</td>
<td>1,00,000</td>
<td>2,040</td>
</tr>
<tr>
<td>U.P. (Kanpur)</td>
<td>1962</td>
<td>Public Limited Company</td>
<td>3.6.1982</td>
<td>5 years</td>
<td>--</td>
<td>1,01,000</td>
<td>2,000</td>
<td>445</td>
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<tr>
<td>Pune</td>
<td>1982</td>
<td>Company Limited by Guarantee</td>
<td>2.9.1982</td>
<td>5 years</td>
<td>--</td>
<td>2,500</td>
<td>20,000</td>
<td>2,000</td>
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<tr>
<td>Ludhiana</td>
<td>1983</td>
<td>Public Limited Company</td>
<td>29.4.1983</td>
<td>5 years</td>
<td>--</td>
<td>10,000</td>
<td>1,50,000</td>
<td>2,000</td>
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<tr>
<td>Guwahati</td>
<td>1984</td>
<td>Public Limited Company</td>
<td>1.5.1984</td>
<td>5 years</td>
<td>--</td>
<td>5,000</td>
<td>50,000</td>
<td>2,000</td>
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<tr>
<td>Kanara (Mangalore)</td>
<td>1985</td>
<td>Public Limited Company</td>
<td>9.9.1985</td>
<td>5 years</td>
<td>--</td>
<td>250</td>
<td>50,000</td>
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<tr>
<td>Madras (Patiala)</td>
<td>1986</td>
<td>Company Limited by Guarantee</td>
<td>11.12.1986</td>
<td>5 years</td>
<td>--</td>
<td>5,000</td>
<td>50,000</td>
<td>3,000</td>
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<tr>
<td>Jaipur</td>
<td>1983-84</td>
<td>Public Limited Company</td>
<td>9.1.1989</td>
<td>1 year</td>
<td>--</td>
<td>2,500</td>
<td>50,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Bhubaneswar</td>
<td>1989</td>
<td>Company Limited by Guarantee</td>
<td>5.6.1989</td>
<td>5 years</td>
<td>--</td>
<td>50,000</td>
<td>2,000</td>
<td>87</td>
</tr>
<tr>
<td>Saunashira Kutub</td>
<td>1989</td>
<td>Company Limited by Guarantee</td>
<td>10.7.1989</td>
<td>5 years</td>
<td>--</td>
<td>10,000</td>
<td>50,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Vadodara (Baroda)</td>
<td>1990</td>
<td>N.A.</td>
<td>5.1.1990</td>
<td>5 years</td>
<td>25,000</td>
<td>50,000</td>
<td>N.A.</td>
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</table>

* Renewed after every 5 years (111 grant of permanent recognition. * Renewed for further 5 years from 8.5.1989. * Cash deposit as security and Rs.50,000 Bank Guarantee or shares of the market value of Rs.75,000 of reputed listed companies.

N.A. - Not Available
PARTNERSHIPS AND REPRESENTATIVE MEMBERS

5. Members of the Exchange are entitled to work either as individual entities, or in partnership, or as representative members transacting business on the floor of the market not in their own name but in the name of the appointing members who assume the market responsibility for the business so transacted. The formation of partnerships and appointment of representative members is subject to the approval of the governing body.

ATTORNEYS

6. Members are entitled to appoint attorneys to supervise their stock exchange business. Such persons must satisfy in all respects the conditions of eligibility prescribed for membership of the Exchange and their appointment must be approved by the governing body.

AUTHORISED ASSISTANTS AND REMISIERS

7. Active members are also entitled to appoint authorised assistants or clerks to enter into bargains in the market on their behalf and to introduce clientele business. In addition to authorised assistants or clerks, members may appoint remisiers who bring in customers' business and are remunerated with a share of brokerage. Registered remisiers are given entry to the floor of the Exchange but are not permitted to transact any business except through the appointing members or their authorised assistants or clerks. The appointment of authorised assistants or clerks and of remisiers is subject to the approval of the governing body.

BROKERS AND DEALERS

8.1 All active members are required to maintain with the Exchange a security deposit. Their primary function is to negotiate purchase and sale of securities in the market. The working of the market, its liquidity and efficiency depend on the influence exerted by different groups of members engaged in specialised activities of one type or another.

8.2 Broadly speaking, the members of the Exchange perform two clearly distinguishable functions — (a) that of brokers acting as agents buying and selling securities for others on a commission basis; and (b) that of traders or dealers acting as principals buying and selling securities on their own account for a profit or at a loss.

8.3 Members are permitted to act both as brokers and dealers. However, under Section 15 of the Securities Contracts (Regulation) Act, no member can enter into a contract as a principal with any person other than a member of a recognised stock exchange unless he secures in writing the consent or authorisation of such person and discloses in the note, memorandum or agreement of sale or purchase that he is acting as a principal. In such cases, it is obligatory under the Stock Exchange Bye-laws and Regulations that the price at which the transaction is completed should be fair and reasonable and justified by the condition of the market.

FUNCTIONAL SPECIALISATION

9. The Stock Exchange Rules, Bye-laws and Regulations do not prescribe any functional distinction between members. However, as a matter of fact, there is on the Bombay Exchange a fairly well-established specialisation under the following main categories: (a) the commission broker; (b) the floor broker; (c) the taravniwalla, akin to a jobber or specialist; (d) the dealer in non-cleared securities; (e) the odd-lot dealer; (f) the budilwalla or financier; (g) the arbitrageur or dealer in foreign securities, that is, securities listed on other recognised Stock Exchanges; (h) the security dealer or dealer in Government securities. Such specialisation appears in varying degrees on the other Stock Exchanges also.

COMMISSION BROKER

10. Almost all members act as commission brokers. The commission broker executes on the floor of the Exchange buying and selling orders placed by his constituents to whom he renders contracts containing a charge for commission at rates not exceeding the official scale of brokerage.
ORGANISATION OF THE STOCK MARKET IN INDIA

FLOOR BROKER

11. The floor brokers, not large in number, are not officially attached to other members. The floor broker executes orders for any member and receives as his compensation a share of the brokerage charged by the commission broker to his constituent.

'TARAVNIWALLA'

12. The taravniwalla may be a jobber or specialist who specialises in stocks located at the same trading post. He trades in and out of the market for a small difference in price and as such is an important factor in 'making a market', i.e., maintaining a continuous and liquid market in stocks in which he specialises. The taravniwalla who specialises in stocks that are relatively not so active frequently receives from other members orders that are away from the market price which he records in his book and executes when business is possible.

DEALER IN NON-CLEARED SECURITIES

13. The dealer in non-cleared securities specialises in buying and selling on his own account shares which are not on the active list. He is generally prepared to buy what is on offer and sell what is required but the price at which he deals varies with the activity of the particular stock.

ODD-LOT DEALER

14. The odd-lot dealer specialises in buying and selling in amounts less than the prescribed trading units. He buys odd lots and makes them up into marketable trading units. He likewise sells odd lots obtained by buying or by splitting up round lots. The odd lot dealer does not rely on commission but earns his profit on the difference between the prices at which he buys and sells. His importance has grown in recent times because of the allotment of shares in small lots among many applicants for new issues.

'BUDLIWALLA'

15. The budliwalla or financier lends to the market by taking up delivery on the due date at the end of the Clearing for those who wish to carry over their purchases; or loans securities to the market when it is short by giving delivery on the due date at the end of the Clearing for those who wish to carry over their sales. His purchases or sales on the last day of the current Clearing are matched by corresponding concurrent sales to or purchases from the same party for the ensuing Clearing. The difference between the two is the contango or the backwardation charge for the continuation facility offered to the market, i.e., for loaning money or stock for a short period of two to three weeks. The loan is fully secured and the return is governed by the technical position of the market and the ruling rate of interest.

ARBITRAGEUR

16. The arbitrageur specialises in making purchases and sales in different markets at the same time and profi ts by the difference in prices between the two centres. Arbitrage depends on the number of securities dealt in common on more than one Stock Exchange and the existence of ready means of communication. The growth in the number of stocks simultaneously listed on different Stock Exchanges and the development of trunk telephone, telex and teleprinter facilities have contributed to the increase of arbitrage business in recent times. The business is subject to such restrictions as the Governing Board may impose in order to avoid the evil of "joint account" with members of other Stock Exchanges and the consequent involvement of one Exchange in the difficulties of another.

SECURITY DEALER

17. The security dealer specialises in buying and selling gilt-edged securities, that is, securities issued by the Central and State Governments and by statutory public bodies such as Municipal Corporations, Improvement Trusts and Electricity Boards. He acts mainly as a jobber and is prepared to take risks inherent in the ready purchase and sale of securities to meet current requirements. The gilt-edged market is an over-the-counter market and each purchase and sale has to be separately negotiated. The market therefore tends to be restricted. There are about half a dozen active firms of security dealers in Bombay and the number elsewhere is more limited. They are in daily contact with the...
Reserve Bank as well as with commercial banks, the Life Insurance Corporation and other institutional investors. They also keep in touch with each other and with other financial centres, and as a result of their activities gilt-edged securities enjoy the benefit of extremely fine quotations.

ORGANISED MARKET

18. The foregoing are the principal elements constituting the stock market and all of them are highly developed in Bombay. They help to make up an extremely well organised and a free, open and active market whose outstanding characteristics are liquidity and price continuity. It is because of the high degree of specialisation that purchases and sales are relatively more easy to put through than in the other markets, that any share or security can always be bought or if so desired sold at a reasonable price almost immediately.

DEALINGS

19. Members of the Exchange are permitted to deal only in listed securities. If the governing body so decides, they are also permitted to deal in securities listed on the other recognised Stock Exchanges. The listing requirements a company must comply with before its share are admitted to dealings are now uniform for all the recognised Stock Exchanges.

BARGAINS

20. Under the Regulations now in force, members of recognised Stock Exchanges are permitted to enter into transactions in securities as under:

(a) For "spot delivery", i.e., for delivery and payment on the same day as the date of the contract or on the next day.

(b) For "hand delivery", i.e., for delivery and payment within the time or on the date stipulated when entering into the bargain, which time or date shall not be more than fourteen days following the date of the contract.

(c) For "special delivery", i.e., for delivery and payment within any time exceeding fourteen days following the date of the contract as may be stipulated when entering into the bargain and permitted by the Governing Board or the President.

DEALINGS IN GILT-EDGED SECURITIES

21. Business in gilt-edged securities starts in Bombay all around 12 Noon and continues till 3 P.M. During this time, important centres like Calcutta, Madras and Delhi contact Bombay on the trunk telephone lines to execute the orders in hand. Orders received locally by members of the Exchange are also passed on to the security brokers and dealers who then try the various sources such as banks, the L.I.C. and the Reserve Bank. The security market is mainly confined to institutional investors, but the brokers and dealers also explore possibilities of business among themselves or with their up-country correspondents.

GILT-EDGED SECURITIES — DELIVERY AND PAYMENT

22. Once the orders are executed, delivery and payment have to be made on the due date. Though the Stock Exchange By-laws and Regulations give sellers an option to deliver at any time within a fortnight subject to a day's notice in advance, normally deliveries are effected on the seventh day following the date of the contract. The delivery is in the form of promissory notes, title to which passes by endorsement and delivery. The business is settled largely through Banks because, except for small lots owned by individual investors, the holdings are of institutional investors who keep them in safe custody accounts with Banks. In Bombay, documents are delivered through Banks against payment at the contract rate plus interest accrued to the date of delivery. This method is in vogue as endorsed bonds
are easier to handle and it is considered desirable that as far as possible third party endorsements should be avoided.

DEALINGS IN SHARES

23.1 Bombay has an auction market in shares. The trading session commences at 12 Noon. Prior to that, members visit their constituents and collect orders from Banks and other institutional investors. Orders also pour in from important centres like Calcutta, Madras, Ahmedabad and Delhi as well as from a number of other places situated all over the country. The orders are communicated either personally or on the telephone or by telegram or through post and some members have a teleprinter or telex service whereby they keep in constant touch with other markets.

23.2 As soon as the orders are received, they are transmitted to the floor for execution. Hundreds of persons are assembled in the trading ring during the official session which lasts from 12 Noon to 3 P.M. There are separate trading posts for different groups of securities, at which business in such securities is primarily transacted. A member wishing to buy or sell a security makes his way to the particular trading post and there he finds a number of other members who are similarly interested in buying or selling the same security. Bids and offers are made aloud and the bargain is closed at a price mutually agreed upon.

23.3 The transaction entered into may be with a commission broker executing an order on behalf of a constituent, or with a taravniwalla, or with an 'odd-lot man', or with an arbitrageur, depending on the kind of the order, the nature of the security and the state of the market. In each case, the bargain is generally completed in a matter of minutes and reported back to the office from where the constituent is immediately informed of his purchase or sale.

23.4 The bargains entered into are by word of mouth but there are seldom any serious mistakes and all bargains are scrupulously honoured no matter what the fluctuation in price. There is a computerised system for comparison of bargains every day and any discrepancies are immediately adjusted. Delivery and payment are then effected on the due date of the contract.

SHARES — DELIVERY AND PAYMENT

24.1 In Bombay, bargains in Equity shares are generally for 14-day settlement, commencing from a Friday and ending a fortnight later. Purchases and sales made on any day of a given period may be crossed-out by subsequent sales and purchases made during the same period. All outstanding bargains at the end of the period have to be settled by delivery and payment on the prescribed days.

24.2 After the last business day, all business done during the period is temporarily adjusted at making-up prices fixed on the basis of the average or closing rates. Amounts due to or from other members are determined on this footing and payment made through the Clearing House.

24.3 In the matter of delivery, Equity shares are classified into two groups. For both the groups, there is a computerised system of settlement which eliminates all intermediaries and brings the first and last parties together. Delivery Orders and Receive Orders are issued to the first and last parties. Delivery in respect of the first group of securities passes through the Clearing House. In the case of the other group, the delivering member hands over directly to the receiving member named in the Delivery Order the shares certificates together with duly executed transfer deeds. Such delivery has to be effected before 2 P.M. on the prescribed day which is generally a Thursday.

25. All bargains in other than Equity shares, all odd lot bargains and all bargains subject to a special stipulation entered into from Thursday of any week up to the following Wednesday are required to be settled by delivery and payment on Wednesday in the week thereafter. On the due date, the delivering member hands over to the
receiving member the share certificates together with duly executed transfer deeds before 2 P.M. and if the documents are in order the receiving member makes payment before 5 P.M. by a crossed "Payee's Account" cheque drawn on the Fort area office of a scheduled Bank. Should the documents be deemed to be not in order, they are returned to the delivering member before 4 P.M. Any differences between the buying and selling members as to whether the documents are defective or otherwise are immediately decided by a reference to the Stock Exchange authorities.

CLEARING HOUSE

26.1 The Clearing House of the Bombay Exchange was established as far back as 1921. It has been managed since its inception by Bank of India acting under the instructions of the Exchange. All the leading Banks of the country are members of the Clearing House which receives delivery and payment on behalf of their customers. The Clearing House guarantees that, when shares are delivered, payment would be duly made or the shares returned to the Bank in the event of default of the member concerned; and per contra that, when payment is made, the shares would be duly delivered or the moneys returned to the Bank in the event of default.

26.2 The Clearing House is maintained by the Exchange at a heavy cost but it renders a most useful service and offers a measure of protection to the investing public which it can avail of it without any special charge. The large volume of business in Bombay has made it essential to have an organised clearance arrangement and these clearing facilities ensure regular delivery and payment.

26.3 The Ahmedabad Stock Exchange has had a Clearing House from early times. The clearing system was introduced in Calcutta in 1944 and in Madras and Delhi after 1957.

STATUTORY REGULATION

27. Trading in the market, whether for spot delivery, or for cash or hand delivery, or for the Clearing is governed by Bye-laws and Regulations which are now more or less uniform for all the recognised Stock Exchanges. These Bye-laws and Regulations have been approved by Government under the Securities Contracts (Regulation) Act, 1956, and they provide in detail for the regulation and control of dealings in stocks, shares and Government securities.

RECOGNISED EXCHANGES

28.1 The Securities Contracts (Regulation) Act, 1956, permits only those stock exchanges which have been recognised by the Central Government to function in any notified State or area. The recognised Stock Exchanges are thus placed in a privileged position, but at the same time the Act vests in Government wide powers of supervision and control.

28.2 An Exchange is recognised only after Government is satisfied that its Rules and Bye-laws conform to the conditions prescribed for ensuring fair dealings and protection of investors. Government has also to be satisfied that it would be in the interest of the trade and public interest to grant such recognition.

28.3 The Rules of the recognised Stock Exchange relating in general to the constitution of the Exchange, the powers of management of the governing body and its constitution (including the appointment thereon of not more than three Government nominees), the admission of members, the qualifications for membership, the expulsion, suspension and readmission of members, the registration of partnerships, and the appointment of authorised representatives and clerks must be duly approved by Government. These Rules can be amended, varied or rescinded only with the previous approval of Government. Likewise, the Bye-laws of the recognised Exchange providing in detail for the regulation and control of contracts in securities and for every aspect of the trading activities of members must also be sanctioned by Government and any amendments or modifications must be similarly approved. Government's authority extends much further,
It is empowered by the Act to make or amend suo moto any Rules or Bye-laws of a recognised Stock Exchange if it so considers desirable in the interest of the trade and in the public interest.

28.4 The Act arms Government with even more drastic powers — the power to make inquiries into the affairs of a recognised Stock Exchange and its members, to supersede the governing body and take over the properties of a recognised Exchange, to suspend its business and lastly to withdraw the recognition granted to an Exchange, should such steps be deemed indispensable in the interest of the trade and in the public interest. Government has thus complete control over the recognised Stock Exchanges.

**LICENCED DEALERS**

29. The recognised Stock Exchanges are the media through which Government regulation of the stock market is made effective. Where there are no stock exchanges, the Securities Contracts (Regulation) Act, 1956, empowers Government to licence dealers in securities and prescribe the conditions subject to which they carry on the business of dealing in securities.

**VOID AND ILLEGAL CONTRACTS**

30.1 The crux and centre of the Securities Contracts (Regulation) Act is in its provision that, in any notified State or area, all contracts in securities (other than spot delivery contracts) which are not entered into through, with or between members of a recognised Stock Exchanges shall be illegal and punishable with fine or imprisonment or both. Equally important is the provision that in any notified State or area all contracts in securities entered into in contravention of certain specified Bye-laws of a recognised Stock Exchange shall be void and unenforceable at law as respects the rights of the members of the recognised Stock Exchange who have entered into such contracts and also as respects the rights of any other persons who have knowingly participated in the transactions entailing such contravention.

30.2 In order to prevent undesirable speculation, the Act further empowers Government to declare that no contract for the sale or purchase of specified securities shall be entered into in any notified State or area except to the extent and in the manner prescribed in the notification. Option business is also totally prohibited and all options in securities are made illegal under pain of fine and imprisonment.

**LISTING REGULATIONS**

31. The Act contains an important provision for compulsory listing of public companies when, having regard to the securities issued by them or to the dealings in them, such a step is considered to be in the interest of the trade or the public interest. In that event, Government has the power to compel such companies to have their shares listed on a recognised Stock Exchange by complying with the prescribed listing requirements. The importance of these listing regulations approved by Government under the Act is widely appreciated and their usefulness has been acknowledged as under:

"To a not insignificant extent, the stock exchanges in India have functioned as the watch-dogs of investors' interest. They have done much to raise the standards of company reporting to build up well-defined practices as regards new capital issues, dividend announcements, closure of transfer books, etc., through rigorous listing requirements. Their standards, in some cases, have been more rigorous than those of Company Law."

**FLEXIBLE STATUTORY CONTROL**

32.1 Under the Act, Government has promulgated the Securities Contracts (Regulation) Rules, 1957, for carrying into effect the objects of the legislation. These rules provide, among other things, for the procedure to be followed for recognition of stock exchanges; submission of periodical returns and annual reports by recognised
Stock Exchanges; enquiry into the affairs of recognised Stock Exchanges and their members; and requirements for listing of securities. The Rules are statutory and they constitute a code of standardised regulations uniformly applicable to all the recognised Stock Exchanges.

32.2 The Securities Contracts (Regulation) Act, 1956, thus sets up a general framework of control which makes Government influence all-pervasive. At the same time, as an enabling legislative measure, the Act provides Government with a flexible apparatus for the regulation of the Stock market in India.

AN ORGANISED AND REGULATED MARKET FOR SHARES AND SECURITIES

33.1 The Securities Contracts (Regulation) Act, 1956, is based on the experience gained in Bombay where the Bombay Securities Contracts Control Act, 1925, was in operation for thirty years. The uniform Rules, Bye-laws and Regulations which now govern all the recognised Stock Exchanges have also been modelled almost entirely on the Rules and Regulations in force on the Bombay Exchange for almost a generation. The Bombay market is fully organised and it is unrivalled in the country for its functional specialisation, liquidity and large volume of business in shares and securities. As pointed out in the June 1960 issue of the Reserve Bank of India Bulletin, Bombay is "the chief centre of the money and capital markets", and because of this pre-eminence the city of Bombay is recognised as "the financial capital of India".

33.2 The nineteen recognised Stock Exchanges regulated by Government under the Securities Contracts (Regulation) Act, 1956, offer an organised market for gilt-edged securities and for shares and debentures of joint stock companies. As the tempo of industrialisation increases and new issues of securities are made from year to year, the volume of outstanding securities and the volume of transactions will go on rising more or less simultaneously. The market mechanism will have to be adapted and improved in response to the growing demands. The mobilisation of the savings of the small man for investment in joint enterprise and the broader spread of shareownership are factors which in the course of time are likely to exert a significant influence on the recognised Stock Exchanges. The stock market must therefore so organise itself and develop its activities as to ensure reasonable service, safety and security to all those who utilise its facilities. Basically, however, the recognised Stock Exchanges must continue to provide an orderly market, price continuity and free negotiability of shares and securities which are of vital significance if investment interest is to grow and expand throughout the country.
### ADDRESSES OF REGULATING AGENCIES

<table>
<thead>
<tr>
<th>Name</th>
<th>Address</th>
<th>Telephone/Telex, Grams</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Controller of Capital Issues</td>
<td>Dept. of Economic Affairs Ministry of Finance</td>
<td>001-3014452</td>
</tr>
<tr>
<td></td>
<td>North Block</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New Delhi 110 001.</td>
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<tr>
<td>2. Stock Exchange Division</td>
<td>Dept. of Economic Affairs Ministry of Finance</td>
<td>001-3012882</td>
</tr>
<tr>
<td></td>
<td>North Block</td>
<td>Telex : 3166175 FINE IN</td>
</tr>
<tr>
<td></td>
<td>New Delhi 110 001.</td>
<td></td>
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<tr>
<td>3. Securities and Exchange Board of India</td>
<td>Mittal Court, 'B' Wing, 1st Floor, 224, Backbay Reclamation Bombay 400 021</td>
<td>2044502,3166175</td>
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<tr>
<td></td>
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### RECOGNISED STOCK EXCHANGES IN INDIA

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<tr>
<th>Name</th>
<th>Address</th>
<th>Telephone/Telex, Grams</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Stock Exchange, Bombay</td>
<td>Phiroze Jeejeebhoy Towers, Dalal Street, Bombay - 400 001.</td>
<td>270563 (Executive Director)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>275581, 275660, 275661, 275626</td>
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<tr>
<td></td>
<td></td>
<td>Telex: 11-85925 STEX IN</td>
</tr>
<tr>
<td></td>
<td></td>
<td>FAX: 91-22-2028121 'SHARATION'</td>
</tr>
<tr>
<td>2. The Ahmedabad Stock Exchange Assn., Ltd.</td>
<td>Manek Chowk, Ahmedabad - 380 001.</td>
<td>347149, 341988, 348883</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Telex: 0121-6789 ASEX IN</td>
</tr>
<tr>
<td></td>
<td></td>
<td>'SHARATION'</td>
</tr>
<tr>
<td>3. Bangalore Stock Exchange Ltd.</td>
<td>'M' Block, First Floor, Unity Building, J.C. Road, Bangalore - 560 002.</td>
<td>220163,225548,226567,227238,226631</td>
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<td>Trading Hall : 226567 'BANGSTOCKS'</td>
</tr>
<tr>
<td>4. Bhubaneshwar Stock Exchange Assn., Ltd.</td>
<td>217, Budhraja Building, Jharpada Cuttack Road, Bhubaneshwar - 751 006.</td>
<td>52340, 52341</td>
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<td></td>
<td></td>
<td>Telex: 0675-437 BSTX IN</td>
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<td>'STOCK EX'</td>
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<tr>
<td>5. The Calcutta Stock Exchange, Ltd.</td>
<td>7, Lyons Range, Calcutta - 700 001.</td>
<td>209366, 201488, 202514, 206977,</td>
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<td>206957, 201489,203335</td>
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<tr>
<td></td>
<td></td>
<td>Telex: 021-7414 CSEA IN</td>
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<td>'CALSTOCK'</td>
</tr>
</tbody>
</table>
## RECOGNISED STOCK EXCHANGES IN INDIA

<table>
<thead>
<tr>
<th>Name</th>
<th>Address</th>
<th>Telephone/Telex, Grams</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. The Delhi Stock Exchange Association, Ltd.</td>
<td>3 &amp; 4/48, Asaf Ali Road, New Delhi - 110 002.</td>
<td>3271038, 3273073 Telex: 31-65317 DSEA IN 'UPKARI'</td>
</tr>
<tr>
<td>9. The Hyderabad Stock Exchange, Ltd.</td>
<td>3-6-275, Himayatnagar, Hyderabad - 500 029.</td>
<td>231985, 236746 Telex: 0425-6053 HSE IN 'STOCKCHANG'</td>
</tr>
<tr>
<td>10. Jaipur Stock Exchange Ltd.</td>
<td>Rajasthan Chamber Bhawan, M.I. Road, Jaipur - 302 001.</td>
<td>563517, 563521, 564962 Telex: 365-2648 JSEL IN 'JAISTOCK'</td>
</tr>
<tr>
<td>11. Kanara Stock Exchange, Ltd.</td>
<td>4th Floor, Rambhavan Complex, Kodialbail, Mangalore 575 003.</td>
<td>326063, 356148, 3561338, 33853, 34736 Telex: 0832-374 MSE IN 'STOCKANARA'</td>
</tr>
<tr>
<td>12. The Ludhiana Stock Exchange Assn., Ltd.</td>
<td>Lajpat Rai Market, Clock Tower, Ludhiana 141 008.</td>
<td>39318, 39319, 32748 Telex: 386429 LSEA IN 'DEALWELL'</td>
</tr>
<tr>
<td>Name</td>
<td>Address</td>
<td>Telephone/Telex, Grams</td>
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<tr>
<td>13. Madras Stock Exchange, Ltd.</td>
<td>'Exchange Building', Post Box No. 183, 11, Second Line Beach Madras - 600 001.</td>
<td>512237 (Executive Director) 510845, 514897, (Secy.) 513081 Telex: 041-8059 MSEX IN 'MASTEX'</td>
</tr>
<tr>
<td>14. Madhya Pradesh Stock Exchange, Ltd.</td>
<td>Rajani Bhawan, 3rd floor, M.G. Road, Opp. High Court, Indore - 452 001.</td>
<td>37423 Telex: 735 - 244 MPSE IN 'INDSTEX'</td>
</tr>
<tr>
<td>16. Pune Stock Exchange, Ltd.</td>
<td>1177, Budhwar Peth, Bank of Maharashtra Bldg., 2nd Floor, Bajirao Road, Pune - 411 002.</td>
<td>441679, 421584 Telex: 145462 PSEX IN 'STOCKEX'</td>
</tr>
<tr>
<td>17. Saurashtra Kutch Stock Exchange, Ltd.</td>
<td>21, New Jagnath, Dr. Yagnik Road, Rajkot 360 001.</td>
<td>48176</td>
</tr>
<tr>
<td>19. The Vadodara Stock Exchange, Ltd.</td>
<td>Paradise Complex, Opp. Commercial College, Tilak Road, Sayajigunj, Baroda 390 005.</td>
<td>324334, 324335</td>
</tr>
</tbody>
</table>
RECOGNISED STOCK EXCHANGES
AND
COLLECTION CENTRES IN INDIA

- Stock Exchanges recognised on permanent basis
- Stock Exchanges recognised on temporary basis
- Covered by PTI Stockscon Service
- Collection Centres

(Map not to scale)