STOCK EXCHANGE DEVELOPMENTS AND REGULATION

M.R. Mayya
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Recent Developments in Stock Exchange

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The stock markets of the country have staged a strident advance since the beginning of the 80s. The quantum of capital raised from the new issues market has risen from a meagre annual average of about Rs.90 crores in the 70s to about Rs.4,200 crores in 1986-87. Despite the setback in the current year, about Rs.3,500 crores would be raised during the current year. The daily turnover in the secondary market has shot up from just about Rs.4 crores in all the markets about a decade ago to about Rs.100 crores in 1986-87, although in the current year, it is about Rs.60 crores. The number of shareholders has also risen sharply from just about a million to 10 million during this period, catapulting this country to the position of the third-largest shareholding population nation next only to the United States of America and Japan who are currently nursing about 50 million and 22 million shareholders respectively. The number of recognised Stock Exchanges in the country has also increased from a stagnant figure of 8 till 1979 to 15 presently.

All these changes have come about not because of a sudden flow of dispassionate love towards industrial securities out of philanthropic approach but out of a cool calculation of returns from investment in these securities vis-a-vis alternate channels of investment. As against an overall negligible rise of just 2 per cent in the index number of ordinary shares over the 60s and of about 60 percent over the 70s, the rise since the beginning of 80s has been about 110 per cent while the rise in the index number of wholesale prices during these periods has been about 80 per cent, 160 per cent and 60 per cent respectively. Equities have thus proved to be more than a hedge against inflation in the 80s.

Despite the sharp growth in the activities of the stock markets, no serious attempt has so far been made to tap the semi-urban and rural areas whose annual saving are at present about Rs.16,000 crores. The four metropolitan cities of Bombay, Delhi, Calcutta and Madras ac-
shareholdings in the country out of which Bombay alone accounts for about 35 percent. The shareholding population in semi-urban and rural areas is estimated to be not more than 8 percent. Attempts to lure the investors from semi-urban and rural areas and also cities with a population up to 10 lakhs needs to be stepped up for acceleration of the flow of funds into equities.

Another rich bowl of funds is the non-resident Indians who are estimated to be nourishing over Rs. 1,00,000 crores with an annual accretion of about Rs. 25,000 crores. Despite the several concessions, the flow hitherto has hardly been about Rs. 1,000 crores. Proper education and simplification of procedural formalities are rapidly called for to encourage the flow of these funds into the Indian markets.

In the larger interest of ensuring development of the corporate sector, it is necessary that flow of funds into industrial securities, particularly equities, does not receive any setback. For this purpose, it is absolutely essential to take all precautions against attempts to hammer down prices. Stock Exchange authorities and Financial Institutions should, therefore, be ever vigilant and take appropriate action from time to time to ensure this. Stock Exchange authorities have numerous weapons like margins, prevention of further dealings, ban on speculative transactions, minimum prices, etc. all or some of which can usefully be deployed to achieve this objective. Financial Institutions who own over 30 percent of equities can easily support the market by timely purchases in periods of recession. This is, however, not to say that stock prices should be jacked up artificially on a permanent basis.

Innovations are called for with regard to instruments in the primary market. The non-convertible debentures which till recently had proved to be attractive have started fading away. Preference shares have completely melted away from the market. Equities and convertible debentures are the only instruments presently available for mobilisation. There is a need to ensure that non-convertible debentures and preference shares are not allowed to vanish. Suitable changes in the terms of these instruments can be made to revive their allurement to the investors. The convertible cumulative preference share which was a non-starter can also be made a potent instrument for mobilisation of resources. Besides other instruments like zero coupon bonds, debentures on tap, warrants, mutual funds with private sector, etc. should be developed to ensure that the investor have a wider spectrum of choice for investment in industrial securities.

While new issues of unknown entrepreneurs without a track record get a lukewarm response, the public response to good issues by established houses continues to be excellent. On an average, equity issues were oversubscribed about seven times in 1981-85 and eight times in 1985-86 on the Bombay Stock Exchange with several of them being oversubscribed more than twenty times. Heavy over-subscription is a national waste and ways and means will have to be found out to prevent such a waste. Evolution of a tender system, restricting the number of centres for colletion of application money and keeping the subscription list open for only one day could be some of the measures that could be considered in this behalf.

A major malady of the new issues market is the unofficial market where premium rates are rigged up by the promoters, underwriters, brokers and others interested in making the new issues a success. These premium rates not only disappear after the fulfilment but the shares are either not traded at all or are quoted with a discount. The dealings in this market should, therefore, be curbed totally so that the gullible investing public do not
that the gullible investing public do not get misled. Alternatively, this market can be regulated after the prospectus of a company are filed with the Registrar of Companies on an "as and when issued basis" as in some of the developed countries of the world.

Innovations are called for in the secondary market too. The sharp increase in turnover has not generated the required liquidity. Out of the securities of about 5,000 companies listed on the stock markets, hardly 50 per cent of them get traded in a year. 122 shares in the specified group (of which contracts need not necessarily result in delivery as in the non-specified group; they can be offset by opposite contracts or carried forward from one settlement period of 14 days to another) in the four major Stock Exchanges of Bombay, Calcutta, Delhi and Ahmedabad account for 80 per cent of the trading and even out of this, about 25 shares account for 75 per cent of the turnover. In other words, 60 per cent of the turnover in the market is confined to about 25 shares.

The question of appointing specialists or market makers in all the listed securities who will always give a give-two quotation, as in some of the developed countries, merits serious consideration. Such specialists or market makers must be offered securities by the issuer on the same terms at which the offer is made to the public. They should also be given liberal financial support from commercial banks. Listing of a security on a Stock Exchange only then has a real meaning. It is heartening to observe in this connection that it has recently been decided by the Presidents of Stock Exchanges to insist on a sponsoring broker for a company with an issued capital of Rs.3 crores or more seeking enrollment on Stock Exchanges and more importantly for the sponsoring broker to act subsequently as a market maker. The translation of this decision into practice will be watched with interest.

There is a growing tendency for business to be concentrated in Bombay which today accounts for about 70 per cent of the turnover in the country. This is not conducive for all-round development of the securities industry in the country. One possible way to arrest this concentration is to structure a national market through electronic devices on the lines of the National Market System in USA which has linked up all the seven leading Stock Exchanges in that country and which enables an investor sitting in one market buy at the cheapest possible price prevailing in any other market and sell at the cheapest possible price ruling in any other market. While we may take some years to structure such a market in the country, a beginning has already been made by linking up electronically all the major Stock Exchanges in the country for the purpose of simultaneous display of prices and other related information through the PTI Stock Exchange Scheme. This will not only lead to increased arbitrage business among different markets but also the development of no-fuss markets as they are no longer be required to wait for Bombay quotations which set the price of the stock market operations in the country. We should also plan to extend the pattern of trading in specified shares prevalent in major Stock Exchanges to minor Stock Exchanges also subject, of course, to proper checks and balances. This will naturally increase the liquidity in the minor Stock Exchanges.

Another major area that needs immediate attention is the odd lots which have proved to be a bug bear for the investors who normally receive 15% to 20% less than the prevailing market price for sale and have to pay 15% to 20% more than the ruling market price for purchase. The Bombay Stock Exchange has recently not only appointed 16 members of the Exchange as authorized dealers in odd lots but also set norms for their operations. The discount for the sale of odd lots cannot exceed 10% if the price of the share is
upto Rs. 40, 7 1/2% for shares of the price from Rs. 40 to Rs. 100, 9% for shares from Rs. 100 to Rs. 300 and 5% or less for shares above Rs. 300. A special trading session for one hour in a week has also been organised by the Exchange to facilitate trading among the members. The scheme has met with resounding success and deserves to be emulated by other Stock Exchanges.

While the above measures are no doubt welcome, companies should also appoint trustees who should buy these odd lots on a regular basis and give to the investors the net proceeds after deducting the expenses incurred in consolidation and disposal. Companies Act, 1956 can also be amended to permit companies themselves to buy these shares, as in U.K. and U.S.A.

Insider trading is one of the menaces raging the Indian stock markets. While insider trading is prohibited in almost all the countries of the world, with strict penal provisions for violations, it is indeed sad to note that neither the Companies Act, 1956 nor the Securities Contracts (Regulation) Act, 1956 contains any punitive provisions against insider trading. The Government should hasten legislation in this regard, preferably by an ordinance.

Restrictions on the currency of the transfer deed to a period of two months or till the next book-closure, whichever is later, have acted as a limiterance to the spread of equity cult in the country, particularly into the semi-urban and rural areas and among the NRIs. The proposal contained in the Companies Amendment (Bill), 1987 to extend the period of two months to twelve months is welcome, but by itself. These restrictions need to be done away with to ensure free liquidity and transferability of shares. Besides attempts to immobilise movement of securities by establishment of Stock Holding Corporations on the lines of Depository Trust Corporations in the USA, should be made on a priority basis. Ultimately we should plan to journey towards a certificate/less society as is being planned by U.K. Late Mr. P.J. Jeejeebhoy, Chairman of the Bombay Stock Exchange, had submitted a blue print in this behalf way back in 1979. A High-Powered Committee may be appointed to exclusively look into these problems and come to an early conclusion from a totally objective angle sans inhibitions and shibboleths.

Confidence of investors can be sustained if only it is ensured that the securities they give to the stock brokers for sale and the money they deposit with the stockbrokers for purchase do not get willed away by their default. The Customers Protection Fund established by the Bombay Stock Exchange in October, 1988 guarantees to each investor an amount of Rs. 10,000 in respect of his genuine investment claims in case of a default by a member of the Exchange is a significant step towards this end. The amount of Rs. 10,000, however, needs to be raised to a much higher level, infact, ultimately, to the total amount of claims.

All these and several other measures are called for if the Indian Stock Exchanges have really to prove to be citadels of shareholders’ democracy in this country.

Regulation of Stock Markets and
Investor Protection

by
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Proper regulation of the market and due protection of the investors are the sine qua non of a healthy functioning of a Stock Exchange anywhere in the world at any point of time. Control and regulation over the functioning of Stock Exchanges have come only when either the markets have not been regulated properly or the interests of the investors were affected adversely. The Great Crash of the Black Thursday, the 29th October, 1929 in the U.S.A. resulted in the enactments of the Securities Act of 1933 and the Securities Exchange Act of 1934. A far more severe crash of Thursday, the 19th October, 1987, is bound to lead to tightening of controls and regulations and several investigations into the causes of the debacle are already on. Even in our own country it was that which led to the initial regulation of the Stock Exchanges in the erstwhile State of Bombay by placing the
Bombay Securities Control Act of 1925 on the statute. This was subsequently followed by the Securities Contracts (Regulation) Act of 1956 of the Union Government with the subject of Stock Exchanges being included in the Union List in the Constitution of India and the frontiers of regulation being extended to the whole country.

**Two-tier Layer of Regulation**

We have in this country a two-tier layer of regulation, one by the Government and the other by the Stock Exchanges themselves. The governmental regulation is mainly confined to application of the various sections of the S.C.(R) Act to the different parts of the country, grant of recognition to Stock Exchanges, approval of Rules/Articles, Bye-laws and Regulations of Stock Exchanges, making or amending suo moto Rules and Bye-laws of Stock Exchanges, acting as an appellate authority in respect of listing and delisting of securities and suspension of trading in securities, appointment of key personnel of the Stock Exchanges like the President, Vice-President, Chief Executive Officer, Public Representatives and government nominees, issue of directions and guidelines relating to the entire gamut of working of Stock Exchanges, redressal of grievances of investors, etc. Under the S.C.(R) Act, the powers of the Government are far wider than these. Government can make enquiries into the affairs of Stock Exchanges and their members, supersede the Governing Boards of Stock Exchanges, suspend business at Stock Exchanges and even withdraw recognition granted to them although recourse to these powers is not normally made. By and large, Government has evolved the philosophy that Stock Exchanges have themselves to regulate their own activities and that its functions are mostly of an overseeing nature. This is in tune with the systems and methods by most of the countries of the world which have Stock Exchanges. Even in the U.S.A., which has one of the strictest framework of governmental regulation, Stock Exchanges have been granted the requisite autonomy to regulate their own day-to-day affairs. This is mainly so not because Stock Exchanges are considered to be the best judges of the situation but because they are in possession of full information at any given situation and time is of supreme importance in the control and regulation of Stock Exchanges. Delay in action even by a few hours, not to speak of days, can cause disaster in the market.
Regulation by Stock Exchanges

Regulation of the stock market by the Stock Exchanges covers the entire gamut of the operations, beginning from the enrolment of members and their authorised assistants, enlistment of securities of companies and disciplining their activities all the while, besides exercising control and regulation over trading.

Membership of Stock Exchanges is subject to severe monetary contraints. A person has to purchase a card which currently costs Rs. 7.51 lakhs at the Bombay Stock Exchange. He has also to pay a security deposit of Rs. 2 lakhs. Besides, he should have adequate working capital and a working place. The educational and professional qualifications, which are at a low level today, will progressively be raised in the years to come. Above all, he is subject to a strict code of conduct and any misconduct or unbusiness like or unprofessional conduct would render him liable to disciplinary action ranging from warning to expulsion depending upon the gravity of the offence. Much to their chagrin about one fourth of the members, of the Bombay Stock Exchange come under some form of disciplinary action or the other every year.

Listed Companies

Companies seeking enlistment of securities on Stock Exchanges have to comply with a very strict schedule of listing requirements beginning from the requirement of public offer till the execution of Listing Agreement comprising 41 clauses. The Agreement is in the form of a covenant designed to facilitate smooth and orderly trading in the market and to protect the interests of shareholders and others who invest or deal in securities. The Agreement, inter alia, provides for prompt transfer, registration, sub-division and consolidation of securities into market lots without any special charges, notifying the Stock Exchanges immediately about the total turnover, gross and net profits, appropriations including dividend distribution, increase of capital by issue of right or bonus shares, any proposed change in the general character and nature of business etc., submission of annual reports, notices and circulars sent to shareholders, annual schedules showing the distribution of securities etc., publication of half-yearly reports about the working and
earnings of the company, offer of right issues to the shareholders together with the right of renunciation to be accepted/recorded within a reasonable time, not being less than four weeks, payment of dividend warrants/payable at par at certain specified centres, comparable offer to the minority shareholders whenever somebody secures the effective control of the management of a company or acquires 25% or more of the voting capital of the company at a price not lower than the price at which the shares of the company have been acquired, etc. With a view to ensuring that a listed company does not act in a flippant manner, the Agreement also ordains that the company, unless the Stock Exchanges agree otherwise, will not without the previous permission of the Central Government withdraw its adherence to the Agreement.

Unlike the member of the Exchange who can easily be subjected to various forms of disciplinary actions like warning, reprimand, censure, fine, withdrawal of all or any of membership rights, suspension and expulsion, the only two actions that can be taken against an errant listed company are suspension of dealings in their securities and delisting their securities both of which are against the interest of the shareholders. The Bombay Stock Exchange, however, made a beginning in 1987 by suspending dealings in the securities of four companies for a token period of one to three days and this did create quite a stir in the corporate world. There is a need to clothe the Stock Exchange authorities with powers to fine such companies and in suitable cases even to launch prosecutions in Courts of Law against the company and its Directors.

Control and Regulation over Trading

The basic objective underlying control and regulation over trading in securities is to prevent excessive speculation and defaults.

Excessive speculation can and does cause wide and sharp fluctuations in prices to the detriment of the market as a whole while defaults shake the very foundation of the functioning of the Stock Exchange. It is, however, rather difficult to assess in precise terms as to what is the desirable degree of speculation and what is not. Any quantitative approach like the proportion of deliveries to the volume of trading or of the extent of fluctuations to the turnover can be exercises in futility.
Paradoxical as it may appear, generally a larger volume is accompanied by a narrower range of price fluctuations. It is precisely because of this that the movement of prices on the Bombay Stock Exchange, which accounts for about two-thirds of the business of the country, is more orderly with oscillations being confined to a narrower groove, as compared to other Exchanges. Nonetheless, it is absolutely necessary to curb excessive speculation, both on the bullish and bearish sides and what is more important, in time, and at times a qualitative approach like the feel of a situation may be more useful in arriving at a conclusion in the matter. This is not to say that the various monitoring mechanisms evolved to constantly gauge the market activities are not helpful. In fact, at the Bombay Stock Exchange daily reports of operators having outstanding business above 0.5 per cent of the paid up capital of a company and of the major ten operators, five on the purchase side and five on the sale side, in a scrip whose outstanding position is above 2.5 per cent of the paid up capital of any company are, among other things, being constantly monitored and these have proved to be extremely helpful in tracking down speculative activities.

Defaults which could be due either to excessive speculation or to entering into commitments beyond one’s financial capacity or to a combination of both or even to sheer wanton volition not to honour the commitments, all of which are deplorable, the last one being the most disgraceful, have a shattering effect on the market. While all the other members of the Exchange who have had contractual obligations with the defaulting member have to bear these losses in respect of market liabilities, the clients of the defaulting member have to forego their hard-earned savings. Customers’ Protection Fund, which guarantees payment to a limited extent in respect of genuine investment claims, is only a palliative and not a solution. While to ensure total prevention of defaults in a Stock Exchange is almost impossible; certainly all attempts should be made to minimise the same.

Regulation and control are mostly confined to trading in specified shares in which transactions can be carried forward from one settlement period of 14 days to another. The facility of carry forward has an attendant risk attached to it and it is necessary to ensure that this risk is duly covered by various devices.

Trading in specified shares is at present conducted at the four major Stock
Exchanges of Bombay, Calcutta, Delhi and Ahmedabad which have 70, 51, 32 and 18 shares respectively in this group. Eliminating the common scrips, the total number of shares involved is 122 out of about 7500 stock issues of about 5000 companies listed on these Exchanges. About 75% of the turnover on these Exchanges is accounted for by the specified shares.

For a share to be in the specified group, it must satisfy certain distinct norms. The paid-up capital of the company should be at least Rs. 5 crores with a market capitalisation of Rs.10 crores. There should be a large number of public shareholders, preferably more than 20,000. The company must be a growth-oriented one with a consistent dividend record. The share should have been listed for a minimum period of three years. Above all, there should be brisk trading in the share, indicative of investor interest. There is no permanency attached to the list. It is constantly reviewed, with additions and deletions taking place once in six months or so. Managements of companies have no say whatever in the determination as to whether or not a share must be in the specified group. This is the sole prerogative of Stock Exchange authorities for whom public interest and interest of trade are the only guiding factors for the determination of the list.

Contrary to the general belief, Stock Exchanges have several weapons in their armoury to ensure that trading is being conducted in an orderly and systematic manner and that settlements take place in time and without any hitch. The major weapons deployed for this purpose are explained in the following paras.

**Margins**

Three types of margins are deployed to regulate the market. First, daily margins are collected in respect of every contract outstanding at the end of the day. These are normally payable in about 30 to 35 scrips out of the total of seventy scrips in the specified group. Rates of margins vary from about 10% to 25% in respect of about 15 volatile scrips and 5% to 10% with regard to others. In a rising market, bears pay at about 50% of the rates payable by bulls and the position is reversed in a falling market. The higher rates against bulls in a rising market and against bears in a falling market are recognised as a price corrective measure dissuading...
the bulls from purchases when the market is buoyant and the bears from sales when the market is depressed. There is no fixity about these rates and are often changed to be in tune with the constantly changing market situation. Calling for stability in these rates, as is being done by a section, is displaying ignorance of the objective of the margin requirement.

Daily margins are payable on the gross position of a member i.e. cumulative aggregate of purchases and sales outstanding at the end of the day entered into by the member with other members in the market either on his own behalf or on behalf of his clients without setting off the purchases of the clients against the sale of another and vice versa. Besides, they are also payable on the transactions put through directly between clients of a member and on his transactions with his clients as a principal. Daily margins are, however, not required to be paid for purchases in respect of which an approved Bank gives the Clearing House an irrevocable guarantee that it will take delivery of the securities on the due dates and for sales if the securities tenderable against such sales are deposited with the Clearing House of the Stock Exchange or if an approved Bank gives the Clearing house an irrevocable guarantee that such securities are in its custody and will be delivered by it on the due dates. Thus purchases and sales which result in actual delivery can get themselves exempted from payment of daily margins. Members are also given the facility of adjusting the margin for the business done in the one security against the business done in any other security. Actual calculation of daily margin is quite a cumbersome matter leading at times to shortages in payment even by members who desire to adhere to these requirements scrupulously. In all such cases routine penalty at the rate of 2% of the amount is levied on such defaults besides collection of margin money and withholding the same for the period of a fortnight. Habitual offenders are, however, subjected to more severe punishment, including suspension.

The second type of margin is the carry-over margin payable by members on the aggregate of the net balance of purchases and of sales carried over from one settlement to another on account of each of their clients and on their own account as principals, in all the specified shares, irrespective of whether or not daily margins have been made applicable to these shares. While the minimum rate of carry-over margin is 3% of the making-up price i.e. the price at which the
transactions are carried over from one settlement to another, generally it is about 5% to 25%. As in the case of daily margin, the rate of carry over margin is higher in respect of purchases in a rising market and in respect of sales in a falling market. In fact, a part of the profit is always impounded, the attempt thus being to use this weapon also as a price corrective measure. As far as possible the rate of carry over margin is not pegged below the daily margin rate. While calculating the carry over margin the daily margin already paid, however, gets subsumed.

The third type of margin is the adhoc margin which are collected from individual members who are indulging in excessive speculation or in speculative activities beyond their means. At the Bombay Stock Exchange, however, all members having an outstanding position above Rs. 3 crores are required to deposit adhoc margins at the rate of 10% of the business above Rs. 3 crores as a matter of routine. The weapon of adhoc margins needs to be used very tactfully as at times insistence of collection of adhoc margins can force a party to default rather than pay these margins.

In addition to adhoc margins, further adhoc margins are collected from members in case of a precipitate rise or fall in the price of any security.

Members are fully entitled to collect the margins from their clients. While collection of carry-over margins is done as a matter of routine, members are reportedly experiencing some difficulty in collection of daily margins as all clients have not got used to this requirement.

Margins—daily, carry over and adhoc have proved to be the most potent weapon of regulation. The Bombay Stock Exchange had at the height of boom in 1985 impounded as much as Rs. 25 crores by way of margins and that was mainly responsible for prevention of any default despite the unprecedented rise in share values.

There is a tendency to confuse our system of margins with margin trading in the U.S.A. In the U.S.A., a stock bought must result within five business days in taking of delivery and full payment for the same has to be made. There is no provision for carry-over as in India. The investor has the facility of paying cash up to
the stipulated extent which is set by the Federal Reserve Board and which is at present 50% and the balance 50% is paid by the broker through a "broker loan" obtained from a bank and collateralized by the purchased stock. Thus full payment is made for the stock purchased while in India, differences are settled between the contract rate and the settlement price (technically called the making-up price) fixed by the Stock Exchange authorities on the last day of the settlement period on the basis of the closing prices of the day. The margin money required to be collected here is a cover against the likely adverse movement of prices while the margin money in the U.S.A is the amount funded by banks into the security industry and there just cannot be any comparison between the two. Yet it is strange that this is being done, even by the crude.

**Limits on Business**

Limits on the outstanding business of a member are imposed with a view to preventing destabilisation of the market because of the impact of large holdings on the movement of prices. A large market with a number of players is always a more stable market than one with a few players. At the Bombay Stock Exchange, the limit is Rs. 3 crores on the aggregate of all outstanding purchases and sales which can be carried forward from one settlement period to another and Rs. 5 crores at any point of time, irrespective of whether such business results in actual delivery or not.

At times, particularly during periods of bullish fervour or bearish grip in the market, limits are also imposed on the total volume of business of a jobber. The object is that the facility of jobbing, without which market operations become difficult, should not be misused to accentuate the trend in the market. In 1987 when the market was generally ruling depressed, a limit of Rs. 5 lakhs per jobber which was subsequently raised to Rs. 10 lakhs was in operation at the Bombay Stock Exchange most of the time.

**Prohibition of further Dealings**

A large volume of outstanding business in any scrip at any point of time can prove to be a constant danger to market stability. It is, however, rather difficult to specify
the plimsoll line beyond which outstanding business should not be permitted to be accumulated as this depends on a number of constantly varying factors like pattern of holdings, floating stocks, etc. Nonetheless this is a very potent weapon often used by Stock Exchange authorities to control trading. Dealings in the shares of the company concerned are then permitted only with the outstanding business being however, permitted to be liquidated on a spot delivery basis. Normal trading is resumed only after the outstanding business gets reduced to a reasonable level. At times compulsory liquidation of the outstanding business by 20 percentage points in each settlement so as to reach the zero level of outstanding business in the course of about three months is also ordered.

It would be a good guideline to follow that whenever outstanding business in any security exceeds say 5% of the paid-up capital, then automatically further dealings in the security should be prohibited except for the purpose of liquidation and trading in the security should be permitted only on a spot delivery basis. Resumption of normal trading may be permitted only after the outstanding business shrinks to a level below say 2.5% of the paid-up of the security. Such automatic checks with suitable further modifications, if need be, can allay apprehensions of unbridled speculative activities having a sway over the market.

Floor and Ceiling Prices

Steep declines and sharp advances in prices need to be prevented as they can totally upset the applecart and create insoluble problems. This can be done, albeit temporarily, by fixing floor prices in the case of declines and ceiling prices in the case of advances. Such floor and ceiling prices give time for the market for a pause and a rehabilitation and it has generally been the experience that prices do tend to correct themselves by this measure. This cannot, however, be a long-term measure as prices in the ultimate analysis have to be determined by the normal forces operating in the market and cannot artificially be propped up or pegged down and any attempts to do so would lead to unhealthy practice of the premia above the ceilings and discounts below the floors being privately settled.

Following a sharp decline in prices in November, 1986, the Bombay Stock Exchange authorities had fixed the closing prices o 30th November, 1986 as the
Prohibition on Speculative Transactions

Speculative transactions i.e. transactions which do not result in delivery, particularly known as short sales and long purchases, lend breadth and liquidity to the market absorbing large orders of purchase or sale with relatively narrow bulges in prices. Without these transactions, market operations become difficult, often aberrated and disjointed. However, there are occasions when these transactions can and do aggravate the situation, although it is rather difficult to pinpoint such situations. Nonetheless one can perhaps say that a sustained period of boom or a prolonged bear phase could be such occasions when prohibitions on speculative transactions could be imposed to resilience the market from the continuing trend it is ascerting itself into.

Except for a brief period from the 12th May, 1987, till 23rd June, 1987, there has been a ban on speculative transactions right from the 9th March, 1987 till the 19th October, 1987. While the ban was limited to short sales only during the period, 9th March, 1987, to 11th May, 1987, the period from the 24th June, 1987 witnessed the ban on both short sales and long purchases. As the bearish sentiment was rather too pronounced, the Stock Exchange authorities had even imposed the drastic requirement of physical delivery of shares within 24 hours initially which, however, was raised to 72 hours subsequently.

Trading on account.

Insistence on physical delivery of all transactions had virtually stultified the market with the turnover tumbling down to less than one-third of what it used to be in the normal times and thereby rendered the market less liquid. Although the
measure did have the desired effect of moderating the price fall, the growing illiquidity in the market became a matter of concern. A new concept of trading on account on the lines of the current pattern of trading on the London Stock Exchange was developed by the Informal Working Group on “Current system of restrictions on Trading in Stock Exchanges” set up by the Controller of Capital Issues with Dr. S. A. Dave, Executive Director, Industrial Development Bank of India, as the convenor. Trading on account permits free trading during a settlement period with all the transactions entered into during the period either resulting in delivery or being offset by opposite transactions. There cannot, however, be any carry forward of transactions from one settlement to another. Trading on account has been operative since the 22nd October, 1987. Although the volume of business continued to be low initially, the turnaround in prices from the 11th December, 1987 did bring about an improvement but only to a limited extent. It is only the carry-forward facility which can improve the liquidity as the operators having continuously an outstanding position in the market are always on the lookout for covering their position either to book profits or to cut losses. It is again the facility of not taking or giving delivery and also of not being required to liquidate the position before the end of the settlement that facilitates free entry of operators into the market. These speculative activities with proper trammels and controls act as a constructive and dynamic force in forging a broad and liquid market.

**Band of Limits**

Part and parcel of trading on account recommended by the Dave Committee was introduction of the concept of band of limits on movement of security prices to reduce the hazards involved in sharp fluctuations and make the movement more orderly and evenly. Limits were imposed not only on the daily two-way movements in prices as compared to the previous day’s closing quotation, but also on the extent of fall or rise during a settlement period in relation to the making-up price of the previous settlement period as under:
<table>
<thead>
<tr>
<th>Market price of the share</th>
<th>Daily limit of price fall or price rise</th>
<th>Settlement period limit of price fall or price rise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs. 50</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Above Rs. 50 upto 100</td>
<td>7.5%</td>
<td>15%</td>
</tr>
<tr>
<td>Above Rs. 100</td>
<td>5%</td>
<td>10%</td>
</tr>
</tbody>
</table>

With a view to providing a better leeway for the upward movement of prices, the settlement period limit of price rise was doubled from the 30th November, 1987. In respect of shares of the market price upto Rs. 50, the settlement period limit of price rise was thus raised from 20% to 40%, for those above Rs. 50 upto to Rs. 100 from 15% to 30% and for those above Rs. 100 from 10% to 20%.

Whenever the price of a share shows a tendency to cross the limits set by the above bands, the share is transferred to spot delivery list for that settlement period and is retransferred to the specified group only in the next settlement.

Sacrosanct as the above limits are, they are required to be altered at times due to a change in fundamental factors warranting a change in the level of prices. Broadly, the following factors act as guidelines for relaxing the price bands:

1. Working results of companies, including half yearly results
2. Deliberations at the Annual General Meetings;
3. Take-over bids;
4. Strikes and Lock-outs;
5. Changes in the excise and customs duties;
6. Changes in administrative prices.

It is rather premature to pass any value judgement on the efficiency of the price bands as an instrument for regulation of the market. Yet the fact that once the limits are reached an operator is denied the right to cut short his losses which might
result in his inability to meet the market liability subsequently is a factor which needs consideration.

**Closure of the Market**

In extreme cases, and only in extreme cases, when it is felt that the market is in a totally demoralised condition, closure of the market is ordered so as to give a pause for the market to reassess its own mood and to correct itself. Opinions on the sagacity of such a step are, however, divided. Except the roller coaster market of Hong Kong, none of the global markets closed despite the worst ever disaster on the 19th and 20th October, 1987 and even the talk of the closure of the market was considered to be “crazy”.

**Regulation of Cash Market**

Although the regulatory weapons are generally applied only to the specified group of shares to control speculative excesses and not to the non-specified group of securities as transactions in this group have generally to result in delivery, speculative activities threatening the stability of the market are at times witnessed in this group too. The regulatory measures, particularly margins and shifting the shares to spot, are then extended to this group and these are continued till such time normalcy gets restored in trading.

Vital as the instruments of regulation are without all of which no market should be allowed to function, it is pertinent to note that clogging the market with too stiff a dose of correctives would stultify the market rendering the smooth working rather difficult. All these measures should act as checks and balances to control and regulate excesses and not as obstacles and roadblocks to the orderly and systematic functioning of the market which always acts and reacts to a host of factors constantly changing and which is propelled by the collective judgement of hundreds and thousands operating simultaneously on the market. The market is like a national poll and any attempts to throttle the functioning of the market is like attempting to aberrate the judgement of the people.
Resiliency of Indian Stock Markets

The Indian Stock Markets have displayed a remarkable degree of poise and stability, thanks mainly to the checks and balances inbuilt in the system and the various timely and effective measures taken by the Government and Stock Exchange authorities from time to time. As per a study conducted by the Bombay Stock Exchange the average annual fluctuations of all India Index Number of security prices of ordinary shares of the reserve Bank of India was only 22.1% during the period 1980 to 1986 which was on par with the corresponding figures of 22.0% of the London Stock Exchange and 23.9% of the New York Stock Exchange and well below the average of 30.2% of 15 leading countries of the world.

Contrary to the general belief, it is the specified group of shares subject to total control and regulation that has proved to be more stable than the non-specified group. The average annual range of fluctuations of ten leading scrips in this group on the Bombay Stock Exchange during the period January, 1984 to June 1987 was 50.8% as against 53.5% in respect of ten leading scrips in the non-specified group during the same period. Theoretically, therefore, there is a case for extending the list of specified shares.
Investor Protection

The cardinal objective of regulation of Stock Exchanges the world over is protection of interests of the investors and that is the objective in this country too. In fact, no Stock Exchange is granted recognition by the Government of India unless its Rules, Bye-laws and Regulations are in conformity with such conditions as may be prescribed with a view to protecting the interests of the investors.

The various provisions embodied in the Rules, Bye-laws and Regulations of Stock Exchanges to protect the interest of the investors include consent of the client before a member enters into a contract with him as a principal, issue of a contract whether as a principal or as an agent after the contract is entered into, right of the client to close out an unfulfilled contract through any other member of the Exchange, lodging of a complaint against any member who fails to implement the stockbroking business with the Stock Exchange authorities who can take disciplinary action including suspension against the member if they are satisfied about the complaint, reference to arbitration, etc. Lack of adequate knowledge on the part of the investors in this behalf, however, erodes greatly the protective cover. Added to this is perhaps the hesitancy on the part of the Stock Exchange authorities to be totally impartial in matters of disputes between a member and his client despite invocations in this regard from Government.

Inadequate as the shield to cover the interest of investors is, the problem becomes
a lot complicated because of the mediation of the sub-brokers who are not registered and on a rough reckoning the 3000 members of Stock Exchanges have at least 20,000 such sub-brokers. Authorised assistants who act as sub-brokers numbering about 10,000 are, however, subject to some degree of control as they are registered with the Stock Exchanges. These sub-brokers, including the authorised assistants, are entitled neither to issue contracts nor bills relating to contracts. Yet they do so, although these are illegal, giving apparently the stamp of authority to such contracts. The delinquent among the sub-brokers collect all the credits from the member and retain with them most of these credits without passing on the same to the clients and thereafter vanish from the scene without any trace. Members invariably plead their inability to do anything in the matter driving the hapless investor to total grief. The Bombay Stock Exchange has recently issued a press note drawing the attention of the public to the correct legal position in the matter with a warning not to be misled by the sub-brokers. This has, however, created a serious problem to the members as several of them do not have the wherewithal to service the clients built through sub-brokers. The question of permitting these sub-brokers to issue contracts by registering them and even enrolling them as associate members by amending suitably the status is a matter requiring urgent attention.

Be that as it may, Stock exchanges have evolved a number of measures to alleviate the grievances of the investors and to grant them progressively greater degree of protection. Some of major measures in this regard are dealt with in the following
Investors' service cell

The Bombay Stock Exchange had established a Complaints cell about 7 years ago to look specifically into the complaints of investors. In pursuance of a Government directive, the Cell was not only rechristened as the Investors' Service Cell in 1986 to demonstrate clearly the service character of the Cell but also strengthened with a senior officer leading the cell to render expeditious service to the investors. About 2,000 complaints are received by the Cell every month and out of this about 94% are against listed companies and the balance against stockbrokers. In 1987, the Exchange received in all 22,508 complaints - 21,169 against listed companies and 1,339 against members. The complaints against companies mainly related to non-receipt of refund/allotment advice, non receipt of securities, transfer of securities, non receipt of interest/dividend, non-receipt of brokerage and underwriting commission, etc. Against members the complaints are primarily about non-receipt of securities bought, non-receipt of sale proceeds, non-receipt of payment of profits, etc.

The Investors' Service Cell tries its level best to redress the grievances as expeditiously as possible. In fact, in all the communications to the investors they are requested to contact the cell if their grievances are not redressed within a reasonable time, thereby clearly indicating to them the earnestness of the Cell to
resolve the problems of the investors. Out of the 21,169 complaints received by the cell in 1987, 16,567 complaints were disposed of.

When the attempts of the cell to resolve the dispute between a member and his client do not succeed due to claims and counterclaims by the disputants, the client is requested to refer the matter to arbitration. Such cases are, however, relatively few.

**Arbitration**

A client or a member can refer any claim, difference or dispute with a member or a client, as the case may be, for arbitration under the Rules, Bye-laws and regulations of the Stock Exchange. Arbitration has to be conducted by two members of the Exchange, one to be appointed by each party. In case of any difference between the two arbitrators as to the award, they can appoint an umpire from among the members of the Exchange. During 1985, 1986 and 1987, 40, 68 and 136 arbitration cases have been filed out of which 25, 21 and 48 cases respectively have been disposed of.

Although arbitrators are normally required to give the award within four months, quite often there is delay due to the protracted nature of the proceedings which has a frustrating effect on the claimants. We at the Bombay Stock Exchange are seriously trying to evolve a shorter system of these proceedings so that justice is
administered in time.

There is a feeling that members of the Exchange, who alone are entitled to sit as arbitrators, may not always be as objective as is required. This is not normally true. Yet as dispensation of justice has not only to be objective but also appears to be so, the question of having outsiders like retired judges having the requisite expertise to act as arbitrators needs favourable consideration.

Customers' Protection Fund

Whenever a member of a Stock Exchange is declared as defaulter, the net assets remaining in the hands of the Defaulters' Committee after defraying costs, charges and expenses relating to the realisation of these assets are utilised to satisfy first the claims of the Exchange and the clearing House run by the Exchange and then the admitted claims of members of the Exchange against the defaulter on a prorata basis. Only if any surplus is left thereafter, the claims of the clients of a defaulter member are considered by the Defaulters' committee. The clients can, no doubt, go in for arbitration with the Exchange in respect of their claims and obtain awards in their favour and thereafter get the same filed in a Court of Law for decree. The decrees, however, cannot generally be executed as the defaulter invariably disposes of all assets before he is declared a defaulter.
Lack of suitable protection to the clients in the event of a member of a Stock Exchange being declared a defaulter has proved to be a major bottleneck in the flow of funds into industrial securities. Ministry of Finance had, therefore, directed the Stock Exchanges of the country to set up a Customers' Protection Fund. The Bombay Stock Exchange was the first to set up such a Fund. Established in October, 1986, the Customers' Protection Fund of the Exchange is patterned on the lines of the Securities Investor Protection Corporation of the U.S.A. and the Stock Exchange Compensation Fund of the London Stock Exchange. The fund is financed partly by way of a levy on the turnover of members collected at the rate of one rupee for every Rs. 10 lakhs and partly by way of contribution from the listing fees collected at the rate of one per cent. The Fund has at present about Rs. 3 lakhs to its credit. The Fund is being administered only for the benefit of the clients of the defaulting members of the Exchange and their beneficiaries in respect of genuine investment claims. The compensation that may be paid in respect of any single client is limited to Rs. 10,000. It is, however, expected that this amount would progressively be raised in future with the increasing flow of money into the Fund. While there is no ceiling on the amount of compensation that may be paid from the Compensation Fund of the London Stock Exchange, the Securities Investor Protection Corporation of the USA limits the payment to a single customer to $5,00,000 out of which claims on cash, as distinct from claims for securities, would not be more than $1,00,000. The Securities Investor Protection Corporation has a line of credit upto $500 million from the banks, besides $1 billion from the Securities and Exchange Commission which in turn can borrow the same from the U.S. Treasury. A similar dispensation in this country can help in grant of increased compensation from the Customers' Protection Fund.

Odd Lots

Odd lots constitute a major constraint of the Indian investors. Out of a total market capitalisation of about Rs.25,000 crores equities worth about Rs.4,000 crores are in odd lots. About 70% of the holdings of a leading company are in odd lots. Investors normally receive 15% to 20% less than the market price for
their sales and have to pay 15% to 25% more than the market price for their purchases of odd lots. Schemes evolved by some of the agencies and companies to fetch a better price for the investors have not proved to be much of a success.

In a significant move to alleviate the hardship of investors, the Bombay Stock Exchange has appointed 16 members as authorised odd lot dealers with effect from the 1st September, 1987. According to the norms laid down by the Exchange, these dealers have to pay to the sellers at rates prevailing on the previous day minus 10% in the case of securities whose prices are up to Rs. 40, minus 7.5% in the case of securities whose prices are between Rs. 40 and Rs. 100, minus 5% in the case of securities whose rates are more than Rs. 300. To begin with, the scheme is confined to companies whose registered offices are situated in Bombay. Later the scheme will be extended to companies whose registered offices are outside Bombay.

A separate trading session has also been arranged every Saturday beginning from January 1988 to facilitate odd lot dealings amongst members themselves. These sessions, which will help in consolidation of odd lots into trading lots dispensing with the requirement of sending odd lots to companies, have proved to be very popular.

It is heartening to observe that Delhi and Calcutta Stock Exchanges have also initiated steps similar to those adopted by the Bombay Stock Exchange to facilitate consolidation of odd lots into trading lots. Other Stock Exchanges are also expected to follow suit.

Laudable as these efforts are they need to be supplemented for solving the problem fully, companies may themselves be permitted to purchase the odd lots of their own shares preferably at the ruling price with the safeguard of prior approval of the General Body to prevent any misuse by the Board of Directors. These shares can then be reissued in marketable lots, if needed be. Similar provisions exist in countries like the U.S.A. and U.K. and there is no reason why we should not emulate the same. Companies Act, 1956 will, of course, have to be amended for the purpose.
Lack of Liquidity

The conception that a listed security is generally tradeable is not correct. Lack of liquidity is a major problem haunting the investors. In fact, 50% of the listed securities virtually remain untraded in any year and many of the untraded shares remain so for years together. Even in bulk of the remaining securities, transactions are few and far between with the bid and offer quotations showing a wide gap, at times, as much as 25% to 30%.

The decision recently taken by the Presidents of the Stock Exchanges to insist on a sponsoring broker for a company with an issued capital of Rs. 3 crores or more seeking enlistment on stock exchanges and more importantly for the sponsoring broker to act subsequently as a market maker is welcome. Translation of this decision into practice needs, however, to be watched with interest.

A bold attempt to solve the problem of liquidity has recently been launched by the Bombay Stock Exchange with the introduction of the Bid and Offer Online System for Thinly Traded Securities (BOOISTS). 490 securities out of a total of about 3,500 listed securities which are frequently traded are not considered in this system. Bids and offers in marketable lots on the basis of the information provided by the members would be captured and displayed by the system. It would also match the bids and offers at the same rate. The bids and offers would remain valid for a period of 15 calendar days. Members are, however, given the option of cancelling their bids and offers or changing the rates or quantities of only unmatched bids and offers. The system, which is expected to be a success, will usher in a new area in trading on Stock Exchanges.

Yet another method to improve liquidity would be to appoint market makers as in developed countries in respect of these thinly traded securities. A beginning can be made by having such market makers in respect of a security with a paid up capital of say Rs. 3 crores or more supply of securities and liberal grant of credit by the commercial banks, preferably at a concessional rate, to these market makers and grant of fiscal incentives by way of treatment of short-term capital gains as long-term capital gains as in the U.S.A. in respect of their
operations are measures which need to be considered favourably in the larger interest of generation of liquidity in listed securities.

**Offer to Non-Management Shareholders**

To protect the interests of non-management shareholders, the Listing Agreement was specially amended in 1984 by incorporation of a new clause, viz. Clause 40, which requires anyone securing the effective control of management of a company or acquiring shares exceeding 25% of the voting capital of the company, to make an offer to the remaining members of the company to acquire their shares at a price not lower than the price at which the shares have been so acquired by them. This is, however, subject to the public shareholding not being reduced to less than 20% of the voting capital of the company so as to ensure that the shares of the company remain listed.

The above provision does not seem to have made any significant impact on the corporate world. Besides the problem of protecting the interests of non-management shareholders in the case of those limiting their acquisition to 24.9% of the voting capital of a company so as not to be attracted by the listing provisions needs also to be tackled.

**Insider Trading**

Insider trading i.e. trading in securities by persons in possession of material non-public information relating to such securities, which is price-sensitive, strangely remains totally uncontrolled and has proved to be one of the biggest menaces to the investors. The limited provision contained in Section 307 of the Companies Act requiring shareholdings and debentureholdings of directors to be recorded and kept open for inspection of any shareholder or debentureholder during the period of 14 days before and 3 days after the Annual General Meeting of a company has proved to be totally ineffective is controlling such trading. Publication of half-yearly results by listed companies as required by clause 41 of the Listing Agreement in operation from the beginning of last year has also not minimised such trading. Not only insider trading needs to be prohibited with provision for deterrent punishment for offenders under a suitable
statutory framework but also enforced strictly and rigidly. Till such time Government comes out with the legislation, it behoves stockbrokers as trustees of public welfare not to put in transactions of “insiders” if they realise that these are based on non-public information.

**Conclusion**

Success of the multifarious measures that may be evolved, all with laudable objective, to control and regulate the market and to protect the interests of the investors ultimately lie on three things. First, the issuers of securities must be fair and honest in the management of the affairs for which the securities have been issued. According to a recent study about industrial sickness, deficiency in managements accounted for 52% of the large affected units, other reasons being market recession and environmental factors, technical factors and faulty planning, infrastructural factors, labour troubles etc. and as much as Rs.3,287 crores were sunk in 714 large sick industrial units as on the 31st December, 1986, not to speak of another Rs.1,588 crores in 1.47 lakh small and medium scale sick units. Secondly, the stockbrokers who act as the intermediaries between the issuers and receivers of securities initially and as the intermediaries among the receivers themselves subsequently must also be fair and honest in their dealings. No matter howsoever honestly the stockbrokers behave and howsoever dishonestly the investors act, for all the stockbrokers are not sinners nor all the investors are saints, there is a general feeling that investors are invariably taken for a ride by the stockbrokers. This feeling has slowly to give way to one of mutual trust which needs hard and assiduous labour on the part of the stockbrokers. Finally, administration of the Stock Exchanges has to be not only competent but also totally honest and tough, not being subject to pressures from any quarters, howsoever, powerful they be. If all these three factors are satisfied, atleast to a considerable extent, if not fully, we can achieve the goal of rising levels of savings moving into industrial securities and the population of holders of industrial securities continuously increasing. Before we march into the 21st century, let us have an India of atleast 50 million shareholders, accounting for about 5% of the population and Rs.1,00,000 crores as market capitalisation amounting to about 25% of the gross domestic product.

TRAVAILS OF THE INDIAN STOCK MARKETS

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Never in the history of the stock markets of this country have so many changes taken place so fast as at present, transforming virtually a dormant instrument into a vital and vibrant weapon for garnering the savings of the nation into fruitful and constructive channels. Even taking parallels of other countries, one can only think of the changes that preceded the Big Bang in U.K. in October, 1986 -dismantling the Chinese wall between jobbers and dealers, removing the minimum commission rates, permitting commercial banks to enter into investment banking, etc., as a comparable phenomenon, and no others and that too with a difference, a vital one at that. The latter were planned and deliberated upon for a long time before being given effect to, while in the case of the former, the changes have come about all too suddenly, with all the resultant problems attendant thereon. It is like an airport, to put in a layman's language, designed for dakotas, being suddenly called upon to handle jumbos. The herculean efforts being put in by all concerned, particularly the Stock Exchange authorities, to restructure the airport for soft landing and brisk taking off of the jun bos, have not been appreciated fully. On the contrary, slight dislocations here and there caused by such a radical transformation are looked into through magnified glasses and criticised out of proportion to the extent of dislocation. This should not, however, dishearten the authorities from carrying on their task, howsoever, gigantic that be.

Causes of Changes

The changes that have occurred in the stock markets are a true and direct reflection of the changes in the government policies, basically in fiscal and industrial matters, tilting private enterprise and initiative to contribute to the growth of economic prosperity of the nation. As a result, equities which acted as a poor hedge against inflation right till the seventies, changed their role from the beginning of the eighties, alluring investors to divert their savings into the corporate sector. As against an overall negligible rise of just 2 per cent in the index number of ordinary shares over the sixties and of about 60 per cent over the seventies, the rise since the beginning of the eighties has been 175 per cent while the rise in the index number of wholesale prices during these periods has been about 80 per cent, 160 per cent and 70 per cent respectively.

Extent of Growth

The extent of growth can easily be gauged by the fact that as against an annual average amount of just Rs. 90 crores raised from the new issues market in the seventies, about Rs. 5,000 crores were raised in 1986-87 and an equal amount is expected to be raised in the current year. The daily turnover on the Bombay Stock Exchange alone has shot up from a meagre amount of about Rs. 4 crores about a decade ago to about Rs. 100 crores in 1986-87 and over Rs. 125 crores at present. The number of shareholders has also risen sharply from about a million to about 5 million during this period, catapulting this nation to the position of being the second largest shareholding population nation in the world, next only to the United States of America, which is currently nursing about 50 million shareholders. Market capitalisation has also registered a more than ten-fold rise from about Rs. 3,000 crores to over Rs. 35,000 crores during the last one decade, accounting for about 12 per cent of the GNP now as against about 3 per cent ten years ago.

The more than ten-fold growth in a decade measured by any standard has naturally resulted in the stock markets becoming the cynosure of all eyes - entrepreneurs for capital, public for investment and Government for regulation - with the ever-vigilant press of the country acting as the watch-dog. Naturally, the global eyes too are on this market, as it is a major market in the emerging markets of the world and bigger than some of the markets in the developed countries of the world.

Welcome as the growth of the markets is, the suddenness and vastness of the same, have in its trail led to several problems, some of which are proposed to be discussed here.
Lack of Accommodation

The travel from the shadows of trees where stockbrokers assembled in the initial stages of establishment of Stock Exchanges to the modern air-conditioned mansions has no doubt been exciting and enchanting but what is disheartening and disillusioning is the constraint to share the accommodation in the new habitat with the financial institutions due to lack of resources with the Stock Exchanges and the stock brokers. This is so not only at the Bombay Stock Exchange but at almost all other Stock Exchanges in the country. This, in turn, has stifled the growth of Stock Exchanges, resulting in a hunt for new accommodation, acquisition of which is again constrained by lack of finance. The vicious circle can be broken only if the financial institutions adopt a more understanding attitude and shift their offices from Stock Exchange premises, in the larger interest of preventing the securities industry from turning sick, financial institutions will also have to grant liberal loan facilities without any claim on accommodation. Grant of loans to the extent of say Rs. 10 crores a year for a period of five years will solve this problem once and for all. A pragmatic approach on these lines will help greatly in dispelling the concept among some that Stock Exchanges are the private properties of stockbrokers, Stock Exchanges belong to the community at large.

Growth of Membership

Growth in the membership of the Exchange is not at all commensurate with the growth of the securities industry. As against the more than ten-fold increase in the growth of the securities industry, the strength of active membership of Stock Exchanges has just doubled to about 2,500 in the last one decade. This has naturally led to a deterioration in the services to the investors. Increase in the membership of Stock Exchanges is, therefore, a must. A mere quantitative approach, however, cannot solve this problem. Stockbroking houses should grow into larger ones, using better resources and individual stockbrokers should amalgamate themselves into firms and companies so as to be able to penetrate into the four corners of the country. The London Stock Exchange has at present only about 360 operating entities although it has about 5,300 individual members. Similar is the case with the New York Stock Exchange with about 600 member organisations as against about 1,490 members. Not many members seen to be willing to take advantage of the recent dispensation permitting companies with unlimited liability to become members of Stock Exchanges. This can lead to financial institutions and their subsidiaries and subsidiaries of commercial banks who are also permitted to become members of Stock Exchanges, making deep inroads into the field wholly reserved hitherto for the stockbroking community, to the chagrin of the latter. Perforce, the stockbrokers have to attune themselves into the new outfit for survival.

Restructuring Governing Boards

Governing boards of Stock Exchanges in almost all countries of the world today are no longer the exclusive domain of stockbrokers. Representatives of government and public, besides professionals, have slowly entered these boards, mostly as a result of reluctance on the part of the stockbroking community to mould themselves to the ethos of changing times. Even the traditional London Stock Exchange which is one of the best managed Stock Exchanges in the world, had to give way in this regard. It is true that this country is not lagging behind, although the dialogue with regard to the extent of representation to the non-brokers is still on. It is not just the number but the quality of the non-broker directors that matters. Even one of them can sway the deliberations. Choosing the right type of non-broker director having the requisite degree of integrity and independence and imbued only by public interest is certainly not an easy task.

Administration

Equally important is the development of an able and impartial administration to run the Stock Exchanges. Selection of the right type of person to the post of Chief Executive, who can withstand the growing pressures from the mighty corporate world on the one hand and the fast growing securities industry on the other, has really proved to be a difficult proposition. More difficult has been the task of building up all too suddenly a team of dedicated officers well versed in the intricacies of Stock Exchange operations to man the growing secretariat of the Exchanges. Ensuring that the officers do not get influenced by continuous exposure to swift movements of wealth has been a still more difficult task.
New Issues Market

Resurgence in the secondary market has already started having its reflections on the primary market, with most of the public issues evoking good response. The link between the primary market and the secondary market, however, appears at times to be overstretched. Even in the acute bear phase of last two years, there have been a number of good issues by the lesser known enterprises which elicited favourable response. With the Indian investor getting progressively better educated, albeit the hard way, he is much more discerning today than in 1985-86, and it is quite unlikely that the fly-by-night operators who made a clean sweep then can repeat their performance. Even so, merchant bankers, underwriters, stockbrokers and all others connected with the new issues market owe a duty to the nation to discipline themselves to ensure that the investors are not taken for a ride again. The unofficial market prior to listing, particularly at centres like Rajkot and Jaipur, and which has proved itself to be the root cause for the several evils associated with the new issues market where the premia are rigged up to entice the investors, needs to be dealt with immediately. While the debate whether or not to regulate this market can go on and the decision that may be taken after weighing the pros and cons and assessing which way the balance of advantage would lie, implemented, not only these transactions need be declared illegal but even the publication of their quotations be also rendered illegal. Such a rigorous dispensation alone can detract the unscrupulous elements from using this market for their benefit to the detriment of the investing public.

A long-term solution to ensure a vibrant new issues market is to permit companies either with a good track record or floated by known entrepreneurs alone to tap this market. Financial institutions, commercial banks and issue houses in the private sector can take all other issues and load them on in the market even with a premium later at the proper time. The small beginning made with bought out deals upto Rs. 1 crore companies has touched only the fringe of the problem. Financial constraints that may be faced in the beginning in this behalf will be overcome over a period of time with continuous recycling of funds. What is needed is to make a beginning in this direction. Solutions like evolution of an over-the-counter market for greenfield ventures however laudable, be, cannot be free from the malpractices presently prevalent in the new issues market.

Secondary Market

The tremendous surge in the secondary market has surprised everyone. 1987 was the lone year of exception when the average daily transactions on the Bombay Stock Exchange were about Rs. 45 crores. From a low level of about Rs. 12 crores in 1982, the average daily turnover zoomed to about Rs. 68 crores in 1986 and is currently at around Rs. 125 crores. The average daily number of deals (either purchases or sales) has also registered a five-fold increase from about 10,000 in 1982 to around 50,000 at present. This is very close to the number of deals of about 70,000 on the New York Stock Exchange and more or less the same number on the London Stock Exchange and if we take the average daily deals, this is more than double of those on these Stock Exchanges which are open for six and half hours as against a mere two hours trading on the Bombay Stock Exchange.

Such a sudden increase in the turnover has naturally led to strains on computer capacity. While computer capacity is being continuously upgraded to meet the challenges of a never ending increase in turnover with the proposal for installation of a main-frame computer linked with terminals directly from the trading ring and offices of the stockbrokers having on line processing capacity being made operative in the near future, what deserves to be noted particularly is that there is practically no problem of unsettled transactions, while leading Stock Exchanges of the world like London and Paris continue to groan under similar problems.

Lack of Liquidity

The sudden increase in the turnover has, however, not led to the desired degree of increase in liquidity in all the scrips. It is true that about 700 issues get traded at present, out of a total of about 3,500 issues listed on the Bombay Stock Exchange, as against about 500 issues out of a total of about 2,200 listed issues a year ago. Still over 80 per cent of the turnover is confined to specified shares and even here the top ten scrips
account for about 75% of the turnover. The Indian stock market is thus a peculiar amalgam of high volatility in respect of a few scrips and low liquidity in respect of a vast majority of them.

While excessive speculation needs no doubt to be curbed, linking deliveries with the turnover and blaming the markets as not being healthy on account of transactions not resulting in deliveries merely displays ignorance of a proper understanding of the complexities of the market mechanism. Deliveries the world over are on a net basis, be it the London market which has a settlement cycle of 14 days, or the U.S. markets which have a settlement cycle of five days or even the Hong Kong market which has a day trade settlement schedule. Smaller Stock Exchanges in the country which have not been able to accept this principle have failed to grow, at any rate to the same extent, as the bigger Exchanges.

Low liquidity for nearly 50 per cent to 60 per cent of the listed issues is the real bane of the Indian stock markets. No systematic efforts have been made till recently to generate liquidity in these issues. Bid and Offer On-line System for Thinly Traded Securities (BOOSTS) launched by the Bombay Stock Exchange in the beginning of this year has not produced results to the desired extent. Concerted efforts for creation of market makers not only in new issues but also in respect of existing ones who could always give two-way quotations within a reasonable range of say 10 per cent need to be made. Financial institutions can and should take the lead in the matter. Reservation of say even one per cent of the new issues and grant of liberal bank finance to market makers would greatly help the process.

Odd Lots

Odd lots constitute another vital area of despair to the investors. Various efforts made in this behalf, like appointment of odd lot dealers and creation of separate odd lot trading session by the Stock Exchanges for which the lead was taken by the Bombay Stock Exchange, arrangements for the purchase of odd lots by some of the management of their own shares and by some of the financial institutions of some leading companies, etc. have no doubt helped in mitigating the problem. Permitting companies to periodically purchase these shares as in some advanced countries can only be a lasting solution for which it is necessary to remove the statutory prohibition in this regard by amending suitably the Companies Act, 1956.

Transparency of Transactions

Lack of transparency of transactions is also a major shortcoming of our markets. Investor is hardly allowed to know the actual rate of the transactions, he being forced to be content with a statement of net to pay in respect of purchases and net to receive with regard to sales, the brokerage amount being added to the former and deducted from the latter, without indicating the quantum of brokerage and more often than not the rate of the transaction given to the investor is the highest in the case of purchases and the lowest in respect of sales of the recorded transactions of the day. The issue is, however, not so simplistic as this, as there is always the jobber's spread which the dealer cannot escape, and the recorded rates are the actual transacted rates, where the dealer could be a seller, in which case the rate would be lower of the bid and offer rates given by the jobber, or a buyer resulting in the rate being higher of the two rates quoted by the jobber. An ordinary investor is not even aware of this nor able to appreciate it. This rule is often exaggerated as the gap is relatively narrow in the case of active scrips, while the daily range of fluctuations is often five to ten times this gap. The balance of advantage would lie in not only indicating the rate and the brokerage separately but also the time of the transaction, as is the practice in the developed markets of the world.

Insider Trading

Insider trading is the biggest bane of the Indian stock markets. While insider trading is prohibited in almost all parts of the world, rather strangely, no illegality is still attached to such trading, although Sachar Committee in its reports on the Companies Act and Monopolies and Restrictive Trade Practice Act had made a recommendation in this behalf more than ten years ago. What is more important than the legislation, is its effective implementation and time alone will indicate the degree of success we can achieve in this regard.
Resilience of Indian Markets

Despite all the pitfalls and shortcomings, the Indian stock markets have displayed a remarkable degree of resilience and stability in their functioning and proved to be one of the best in the world. As per the study conducted by the Bombay Stock Exchange, the average annual range of fluctuations of all-India Index Number of security prices of ordinary shares of the Reserve Bank of India during the period 1980 to 1987 was one of the lowest in the world, being only 22.8 per cent, next to Australia which was 21.0 per cent, and lower than 24.6 per cent of the London Stock Exchange and 25.4 per cent of the New York Stock Exchange and well below the average of 32.7 per cent of 15 leading stock markets of the world.

The type of collapse that took place on the 19th and 20th October, 1987 in global markets of the world and the residual effects of the events in the Indian market, is a result of both local and global factors. The Indian markets, Insulation of the Indian markets from global markets no doubt helped in ensuring that these cataclysms did not have their ripples on the former. But how long should this insulation continue in a totally shrunk financial system of the globe, virtually to the level of a village, enabling one to shop around the global markets within minutes and round the clock? It is a matter for consideration. It is true, we have already made a beginning by permitting non-resident Indians and persons of Indian origin residing abroad to operate in the secondary market, albeit to a limited extent. However, the paid-up capital of listed companies, and the proceeds of the issue of the Trust of India subscribed by the NRI s and the foreigners quoted on the London and New York Stock Exchanges being invested in Indian securities. While several of the markets in the emerging markets of the world have opened up in some way or the other and got integrated into the global system, our market which is one of the biggest in these markets too needs to be blended with the global system, with a view to covering all the checks and balances to ensure that the flow of hot money into and out of our market does not cause sharp jerks in prices.

The resiliency of the Indian markets has to be attributed basically to the various measures such as margins, limits on holdings, limits on movement of prices, prohibition on further dealings, ban on short sales, and long purchases, etc., continuously deployed to control and regulate the market. Contrary to the general belief, it is the forward section of the market which has displayed a greater degree of stability than the cash section. The average annual range of fluctuations of ten leading scrips in the forward section of the Bombay Stock Exchange during the period 1984 to 1987 was 53.8 per cent as against 65.1 per cent in respect of ten leading scrips in the cash section. Credit for this goes to a large extent to the checks and balances ingrained in the forward section and the lack of it in the cash counter. A greater degree of coordination in the regulatory systems at the four major Stock Exchanges of Bombay, Calcutta, Delhi and Ahmedabad where forward trading is permitted, can help in instilling better discipline in the system. Volatilities of a fair, free and orderly market would do well to realise that a fair and orderly market can rarely be feasible and a free market can equally rarely be fair and orderly. Financial institutions who are today major players in the market, holding as they do over 30 per cent of the equities, can also help in bringing about better discipline in the market. It is common knowledge that investors come in droves in a bull phase and also go away from the market in droves in a bear phase and it is next to impossible to alter this mass psychology. Equally impossible is to change the attempts of speculators who tend to depress the prices in a declining market and push up the prices in a rising market, thereby accelerating the amplitudes of price variations. It is here where the financial institutions can really play a stabilising role by effecting purchases in a declining market and sales in a rising market and thereby impart a greater degree of stability to the market. It is needless to add that these operations would incidentally also help in increasing the earnings of the financial institutions.

Screen Trading

While no doubt systematic and concerted efforts are being made continuously both by the Stock Exchange authorities and the Government to render the Indian stock markets less fragile and more resilient, adequate attention has not been paid to reduce the drudgery involved in these operations. The age-old practice of physical assembly of operators in one place to transact business continues, the only difference being that the markets have moved physically from the shadow of trees to air-conditioned halls. Over two thousand people mill around daily in the trading ring of the Bombay Stock Exchange, shouting and gesticulating all the time during the two-hour trading period to transact business. Fines of trading posts at many of the Exchanges have helped in reducing the movement of operators, but the lack of it at some of the Exchanges has virtually
resulted in chaotic conditions, reducing not merely the liquidity of a market already liquid, but also emergence of parallel markets within the floor. There is a global trend to move towards screen trading with the bids and offers continuously being displayed on large display screens or video monitors and interested parties being thus enabled to transact business at these rates. Screen trading has resulted in the floor of the London Stock Exchange being virtually deserted which the Canadian writer, Susan Goldenberg, has graphically described as conversion of the trading floor into a ground for volley-ball play. New York Stock Exchange, however, is not prepared to switch over to screen trading as it is not yet convinced that the market through screen trading is as competitive as the face to face two-way auction trading on the trading floor which they widened in January, 1983 by addition of a 7,000 square feet area to the existing 30,000 square feet trading floor. Some of the Londoners remain unconvinced that they have done the right thing. Be that as it may, screens can certainly be used for display of bids and offers and reduce thereby the congestion and noise in the trading ring. This is what, as already stated above, the Bombay Stock Exchange is planning to do by installation of a mainframe computer with terminals in the trading ring and in the offices of the stockbrokers and convert the trading ring into a more habitable place.

An issue closely linked with computerisation is the need to switch over to on-line processing from the system of batch processing that we have at present. Batch processing necessarily results in delay in delivery of shares and payment of price, a settlement trading cycle of 14 days virtually taking another 14 days for settlement of the transacted business, reducing thereby the liquidity of stock market instruments. This needs a structural change of introduction of floor-ticket system with the operators instantly keying in the transactions straight from the trading ring. It is not merely a question of accepting this in principle, but is also of being physically able to do so, considering that currently about 25,000 deals are being put through in an hour. Lengthening the trading period to reduce the intensity of the transactions can and should be the answer.

Stock Holding Corporation

Equally laborious is the post-transaction work relating to physical delivery of shares. Delivery of about 30 crore shares worth about Rs. 3,000 crores take place in a year on the Bombay Stock Exchange alone, while another more or less equal amount of delivery takes place on the other 14 Stock Exchanges of the country. It is true that not all of them go to companies for transfer as holders of shares do often dispose of the shares before registration in their names. Even so, 30 per cent to 40 per cent of the deliveries can roughly be estimated to result in actual transfer in the books of companies. Before any transfer is effected in the name of the buyer, there is a tortuous travel of eight stages, viz.,

(i) the selling broker sending the blank transfer forms to the selling client,
(ii) the selling client signing the transfer forms and sending the same along with the share certificates to the selling broker,
(iii) selling broker delivering these documents to the buying broker either directly or through the Clearing House,
(iv) the buying broker sending the transfer forms to the buying client,
(v) the buying client returning the transfer forms to the buying broker after signing them,
(vi) the buying broker sending the documents to the company for registration,
(vii) the company sending the certificates back to the buying broker, and
(viii) finally the buying broker despatching the certificates to the buying client, all saddled with risk, not to speak of the mountain load of work and enormous time involved in such a circuitous process.

Most of the global markets have already moved away from this process by creation of Depository Trust Companies which have immobilised the securities and transfers take place only through book-entries eliminating the cumbersome procedure of physical movement of deliveries of scrips among brokers and clients. A beginning has been made in this country by the establishment of Stock Holding Corporation of India Ltd. which initially will be offering the services of acting as a depository to the seven all India financial institutions which have promoted the Corporation and later extend its services to others. Bank of India and the Bombay Stock Exchange will also soon be establishing a Shareholding Corporation which will also act as a depository in respect of 'badla' shares to begin with. Roughly about 1 crore shares worth about Rs. 100 crores would initially be involved. Later, the services would be extended to the shareholdings of stockbrokers and investors.
A major hurdle on the free operation of the Stock Holding Corporation is the restriction on the currency of transfer deed for a period of one year or till the next book-closure, whichever is later. With the causes that led to the introduction of the restriction way back in 1966 being fully taken care of by various other provisions subsequently embodied in the Companies Act and the Income-tax Act, these restrictions need to be done away with lock, stock and barrel, if the cult of equity has to be carried to the four corners of the country, particularly the semi-urban and rural areas, and across the country among the non-resident Indians.

Immobilisation of securities is only a part of the journey to ease the problem. Ultimately we should plan to create a certificateless-society as is being proposed in the United Kingdom by the establishment of TAURUS. A proposal to establish a Stock Holding Corporation on these lines was submitted by the Bombay Stock Exchange way back in 1979. Each investor would have an account with the Stock Holding Corporation with the shares purchased by him being credited to his account by a Deposit slip and the shares sold by him being debited to his account by a Delivery Order. The mechanics of opening and operating an investment account would be simplicity itself, akin to pay-in slips and cheques making credit and debit entries respectively in the banking system. Shares will then become as liquid as cash, mobile and freely transferable, as funds flowing through banking accounts.

Sine Qua Non of Development

Simplification of trading and settlement processes is no doubt crucial for the development of the securities industry, but that by itself, however perfect be it, will not help in spreading the cult of equity in the country. A prudent and honest management of listed companies and an equally good management of securities houses also a sine qua non to ensure a continuous expansion in the shareholding population of the country to help in the evolution of an egalitarian structure of society. Regulation of the securities industry has also a vital role to play in this regard. Curiously, the securities industry in this country had the least controls so far and that too in an economy like ours which otherwise has been subjected to a host of rules and regulations. Even in a country like U.S.A. which believes in a free economy, securities industry is subject to a stringent set of rules. With the formation of the Securities and Exchange Board of India, things are slowly changing and all the segments of the securities industry will come under regulation. With better regulation of this industry, it is expected that the flow of funds into the capital market instruments would be augmented. It is a feasible proposition to ensure that about 25 per cent of domestic savings are garnered by these instruments every year, as against around 6 per cent at present.

INVESTOR PROTECTION

By

M.R. Majja
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Although in terms of market capitalisation and turnover of business, India does not rank within the first fifteen stock markets of the world, the country has amazingly the third largest shareholding population in the world, next only to the United States and Japan who have about 50 million and 25 million shareholders constituting 21 per cent and 20 per cent respectively of the populations of their countries. Even on a conservative estimate, India has at present about 12 million shareholders accounting for 1.5 per cent of the population. What is more important is that with progressively increasing awareness of the utility of investment in shares, the growth rate of the shareholding population can easily be placed around 10 to 12.5 per cent with about 1.2 to 1.5 million new shareholders being added every year. Well by the end of the century, this country can easily boast of nursing about 30 to 40 million shareholders amounting to 3 to 4 per cent of the population.

With debentures and bonds, both convertible and non-convertible, emerging as a major source of finance for the corporate sector, both public and private, from the beginning of the eighties, the number of debentureholders has also increased significantly and can easily be estimated to be about 4 million at present.

Major Objective of Regulation

A major objective of regulation of Stock Exchanges in this country or any other country for that matter of fact is investor protection. The Big Bang which took place in U.K. in October, 1986 was preceded by the Financial Services Act basically designed towards protection of the interest of the investors. In our own country, no Stock Exchange is granted recognition by the Government of India unless its Rules and Bye-laws are in conformity with such conditions as may be prescribed with a view to protecting the interests of the investors. This was fully echoed when the Prime Minister observed in his 1987-88 Budget speech that "Investors' rights must be fully protected".

Investor Protection from Companies

Investors need protection not only from stockbrokers but also from companies. Investor protection from companies, however, has not received as much public attention as that from stockbrokers. Besides the provisions embodied in the Companies Act, 1956, the Listing Agreement, which a company seeking enlistment enters with the Stock Exchange before securities of the company are admitted for dealings on the Exchange, provides for a number of safeguards in this behalf. It is proposed to deal with some of the major ones incorporated in the Companies Act and the Listing Agreement.

Interest on Excess Application Money

Because of the interminable delay in the admission of shares and debentures for dealings on the Stock Exchange, sub-section 2(A) was specifically incorporated in Section 73 of the Companies Act by the Companies (Amendment) Act, 1974 providing for payment of interest by the directors of the company at the rate of 12 per cent per annum on excess application money from the eighth day, the company becomes liable to pay. The Companies (Amendment) Act, 1988 amended this provision putting the responsibility for payment of interest on the company itself, in addition to directors of the company who are officers in default and providing for payment of interest at such rate, not less than four per cent, and not more than fifteen per cent, as may be prescribed, having regard to the length of the period of delay in making the repayment of such money. As the liability is this behalf has become rather difficult to be translated into practice, the Ministry of Finance issued a guideline on the 21st July, 1983 directing payment of interest at the rate of 10 per cent per annum for the delayed period beyond the 70th day from the date of closure of the subscription till the date of posting of the refund orders relating to excess application money. The rate of interest was raised by the Ministry of Finance to 15 per cent per annum on the 27th September, 1985.

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Welcome as the above provisions are, in actual practice very few companies have so far paid interest on excess application money, although posting of the refund orders relating to excess application money after the 70th day from the date of closure of the subscription list is not uncommon. A well intentioned piece of legislation thus remains defeated by companies resorting to ante-dating of the refund orders.

**Issue of Certificates in Market Lots**

According to the listing requirements and Listing Agreement, companies are required to issue, unless the Stock Exchange agrees otherwise and the parties concerned desire, Allotment Letters, Share Certificates, Call Notices and other relevant documents in market units of trading. Companies are also required to sub-divide and consolidate Allotment Letters, Share Certificates, etc., into market units of trading. Despite such clear provisions, a number of companies continue to ignore these provisions and issue these instruments in larger units thereby affecting adversely liquidity of these instruments as delivery of these instruments in the market has invariably to be in market lots.

The Listing Agreement also requires companies to sub-divide and consolidate Letters of Allotment and Share Certificate into denominations other than those fixed for the market units of trading on payment of a nominal fee. Even so, quite a few companies have chosen the liberty of amending their Articles of Association taking powers to refuse applications for transfer of shares in denominations less than the market lots except where transfer is made in pursuance of any provisions of law or statutory order or an order of a competent Court of law or where the transfer of shares relates to the transfer of the entire holding of a member consisting of less than the marketable lot. A person holding shares in a lot higher than the market lot is, however, permitted to sell the market lot and retain the residual lot below the marketable lot. The Bombay Stock Exchange has consistently taken the stand that there would be no objection to a company refusing to sub-divide a certificate into several scrips of very small denominations, or to consider a proposal for transfer of shares comprised in a certificate to several parties, involving such sub-division, if on the face of it, such sub-division/transfer appears to be unreasonable or without a genuine need and not otherwise.

**Transfer of Shares**

Under Section 111 of the Companies Act, 1956, a company is given a period of two months from the date on which the instrument of transfer is delivered to the company for effecting the transfer and if a company refuses to do so, the company is required to send notice of the refusal to the transferee and the transferor giving reasons for such refusal. The transferee or the transferor has a right to appeal to the Company Law Board against any refusal of the company to register the transfer within a period of two months from the date of receipt of the notice of such refusal, or where no notice has been sent by the company, within four months from the date on which the instrument of transfer was delivered to the company. The Company Law Board may, after hearing the parties either dismiss the appeal or by order direct that the transfer shall be registered and the company shall comply with such order within ten days of the receipt of the order.

Section 22A of the Securities Contracts (Regulation) Act, 1956, which became effective from the 17th January, 1986 and which is applicable only to listed companies restricts the power of a company to refuse to register the transfer of any of its securities in the name of the transferor only on grounds that (a) the instrument of transfer is not proper or has not been duly stamped and executed or that the certificate relating to the security has not been delivered to the company or that any other requirement under the law relating to registration of such transfer has not been complied with, or (b) the transfer of the security is in contravention of any law or (c) the transfer of the security is likely to result in such change in the composition of the Board of Directors as would be prejudicial to the interest of the company or to the public interest, or (d) the transfer of the security is prohibited by any order of any court, tribunal or competent authority. The company is required to inform its opinion with regard to refusal of registration on any of these grounds within two months from the date on which the instrument of transfer is lodged with it and intimate both the transferee and the transferor about the requirements which need to be complied with for securing such transfer. The company is required to effect the registration within this period of two months if its opinion is that the registration ought not to be so refused. If the company forms an opinion for refusal of transfer on any other ground, the company is required to make a reference to the transferor and the transferee.
The Listing Agreement has abridged the period for transfer to a month from the date of lodgement of the certificate.

Despite such clear cut statutorily laid down period of time for effecting transfers, instances of companies not adhering to these time schedules have become a matter of daily occurrence. While inability of companies to adhere to the time schedule due to reasons like pressure of work with the transfer agents, sudden strike by the employees, etc., is understandable, although not excusable, the practice of some companies to wantonly delaying transfers with a view to diminishing the supply of stocks and to jacking up the prices is reprehensible. Stray cases of action taken by the Bombay Stock Exchange against such companies by suspending dealings in their securities for a few days have had no doubt some effect in the matter but have not proved to be deterrent enough against these companies merrily continuing to indulge in such practices.

Payment of Dividend and Interest

The Listing Agreement clearly provides that companies have to issue dividend warrants, interest warrants and also cheques for redemption money of redeemable shares or of debentures and bonds payable at par in cities where Stock Exchanges are situated, State Capitals, and other cities with a population of more than five lakhs (as per the 1971 census) and at centres where branches of the bankers to the company are located and collectable at par, with collection charges, if any, being borne by the company, in the case of any bank in the country at centres other than these centres. There are thus 17 centres where recognised Stock Exchanges are situated, 15 State capitals and 7 cities with a population of 5 lakhs (as per the 1971 census) i.e., 39 centres, besides the centres where branches of the bankers to the company, are located, where these instruments are payable at par. This wholesome provision embodied in the Listing Agreement with the laudable objective of ensuring equity among the investors throughout the country stands defeated by quite a few companies, including the leading and well established ones, ignoring the same and making the provision of payable at par applicable only to a few centres and debiting the collection charges in respect of other centres to the investors. (See the map on the next page)

Take-overs

Pursuant to a directive issued by Government in April 1984, a new clause viz., clause 40 was inserted in the Listing Agreement by Stock Exchanges to take care of the interest of the non-management shareholders in cases of take-overs. According to this clause, any acquisition of the shares of a company beyond 25 per cent of the voting capital of the company or securing the effective control of management of a company by acquisition of the shares of the existing Directors and others who effectively control or manage the company, irrespective of the percentage of their holding, should be preceded by an offer to the remaining members of the company to acquire their shares at a price not lower than the price at which the shares of the company are being acquired. This is, however, subject to the public shareholding not being reduced to less than 20 per cent of the voting capital of the company.

There have been quite a few take-overs ever since this clause came into operation, particularly during the last one year. Unfortunately, this clause has not proved to be effective in taking care of the interests of the non-management shareholders because of four major reasons. First, acquisition of the shares is limited to 24.9 per cent of the voting capital of the company, thus conforming to the letter of the law while totally violating its spirit and brazenfacedly arguing about the correctness of such a move. Secondly, acquisition of the shares would in actuality result in an effective change in the control of management of the company but would not ostensibly look so, as for example when only four out of eight directors change and there is no foolproof way of deciding that there is an effective change in the control of management of the company. Thirdly, there would be no change in the shareholding pattern of the company but in the pattern of shareholding of the parent company holding shares in the company, as a result of which there is a change in the effective control of management of the company. Finally, acquisition of shares ostensibly takes place at a price much below the ruling market price but in actuality at a much higher price, the difference being settled privately.

In order to ensure that the interests of the non-management shareholders are served better, the meeting of the Presidents and Executive Directors of Stock Exchanges convened by the Securities and Exchange Board of India on the 11th February, 1989 felt that the trigger point should be brought down from
CENTRES WHERE DIVIDEND WARRANTS AND INTEREST WARRANTS ARE PAYABLE AT PAR BY LISTED COMPANIES

The Centres are:

(i) Centres where recognised Stock Exchanges are situated, viz., Ahmedabad, Bangalore, Bhubaneswar, Bombay, Calcutta, Cochin/Ernakulam, Delhi, Guwahati, Hyderabad, Indore, Jaipur, Kanpur, Ludhiana, Madras, Mangalore, Patna and Pune.

(ii) State Capitals not covered by (i) above, viz., Agartala, Aizwal, Bhopal, Chandigarh, Gandhinagar, Gangtok, Imphal, Itanagar, Kohima, Lucknow, Panaji, Shimla, Shillong, Srinagar, and Trivandrum.

(iii) Cities with a population of more than 5 lakhs as per the 1971 Census not covered by (i) and (ii) above, viz., Agra, Allahabad, Coimbatore, Jabalpur, Madurai, Nagpur and Varanasi; and

(iv) All branches of the bankers to the Company other than at the centres referred to in (i), (ii) and (iii) above.
25 per cent to 10 per cent and that the Stock Exchanges should have the right to approve the terms and conditions of these deals as also the reasonability of the prices. They were also of the view that where a bidder acquired more than 50 per cent shareholding from a substantial shareholding, he should acquire at least 20 per cent from the minority shareholders at the same price.

**Mismanagement of Companies**

A major cause of disenchantment of investment in industrial securities is the growing sickness in industrial units leading to a substantial erosion, often exceeding 50 per cent of the par value, in market prices. At the end of June 1987, there were as many as 1,057 non-small scale sick units accounting for a bank credit of Rs.2,680.44 crores and securities of most of these units are listed on the Stock Exchanges with substantial public holdings.

While sickness due to unavoidable and unforeseen factors like changes in policy, power cuts, labour troubles, alterations in the demand for goods, technological advances, etc. is understandable, although not desirable, sickness due to mismanagement is abominable. Stringent action against the errants can help mitigate the severity of the problem and to that extent, howsoever limited, be it, prevent erosion of the confidence of the investing public in investment in industrial securities.

**Investor Protection from Stockbrokers**

Investor protection from stockbrokers has rightly been talked about and quite a few steps have been taken to guard the interests of the investors in this behalf. There are about 3,000 active stockbrokers who are members of Stock Exchanges and whose activities are subject to the Rules, Bye-laws and Regulations of Stock Exchanges.

**Sub-Brokers**

There is a fairly good measure of protection to the investors from the stockbrokers. While this has no doubt to be improved upon, the class of sub-brokers who have proliferated all over the country, both in the areas where recognised Stock Exchanges are situated and outside, pose a serious threat to investor protection and it is estimated that about 50 per cent of the complaints against the stockbrokers is because of this class of sub-brokers. On a rough reckoning, there are at least 30,000 such sub-brokers not subject to any regulations constantly posing serious threat to investor protection. Some of the sub-brokers in the jurisdictional areas of Stock Exchanges also commit the illegality of issuing contracts, bills, memos, etc., in their own names to lend authority to their operations and the gullible investors who are not normally aware that these can legally be issued only by a member of a Stock Exchange in the jurisdictional areas covered by the Stock Exchange fall a prey to such gimmicks of sub-brokers. It is quite a common occurrence seeing a sub-broker, who after getting established, suddenly vanishes from the scene collecting the shares given for sale and the money given for purchase by his clients leaving the latter totally helpless. Since there is no nexus between the stockbroker and the clients of the sub-broker, the stockbroker pleads his inability to entertain the claims of the clients of the sub-broker.

In order to overcome this serious lacuna in regulation, a Working Group set up by the Securities and Exchange Board of India, has recommended a system of authorisation of these sub-brokers based on the criteria of professional competence, financial soundness and record of integrity and payment of suitable admission fee, security deposit and annual subscription. The Group has also recommended creation of a Customers' Protection Fund by earmarking 25 per cent of the sub-broker's annual subscription towards this fund. The Group has further recommended that while the sub-broker would be primarily responsible to the client, the principal broker would ultimately be responsible to the client in case of sub-broker's default. The Group was also of the opinion that over a period of time, sub-brokers must be authorised to issue contracts in their own names to their clients. This would obviously need an amendment to the Securities Contracts (Regulation) Act, 1956 which permits contracts to be entered into only between, with or through members of recognised Stock Exchanges in jurisdictional areas.
Rights of Investors Against Stockbrokers

Investors have certain rights embodied in the Rules, Bye-laws and Regulations of Stock Exchanges which most of them are not aware. These include consent of the client before a member enters into a contract with him as a principal, issue of a contract whether as a principal or as an agent after the contract is entered into, right of the client to close out an unfulfilled contract through any other member of the Exchange, lodging of a complaint against any member who fails to implement the stockbroking business with the Stock Exchange authorities who can take disciplinary action including suspension against the member if they are satisfied about the complaint, reference to arbitration, etc. Adequate publicity in this behalf needs to be undertaken, particularly by the Stock Exchanges, so that rights of investors do not go by default.

Arbitration

A client or a member can refer any claim, difference or dispute with a member or a client, as the case may be, for arbitration under the Rules, Bye-laws and regulations of the Stock Exchange. Arbitration has to be conducted by two members of the Exchange, one to be appointed by each party. In case of any difference between the two arbitrators as to the award, they can appoint an umpire from among the members of the Exchange. During 1986, 1987 and 1988, 68,136 and 111 arbitration cases have been filed out of which 30,92 and 25 cases respectively have been disposed of at the Bombay Stock Exchange.

Although arbitrators are normally required to give the award within four months, quite often there is delay due to the protracted nature of the proceedings which has a frustrating effect on the claimants. A shorter system of these proceedings is required to be evolved so that justice is administered in time.

There is a feeling that members of the Exchange, who alone are entitled to sit as arbitrators, may not always be as objective as is required. This is not normally true. Yet as dispensation of justice has not only to be objective but also appears to be so, the question of having outsiders like retired judges having the requisite expertise to act as arbitrators needs favourable consideration.

Transparency of Transactions

Lack of transparency of transactions is also a major shortcoming of our markets. Investor is hardly allowed to know the actual rate of the transactions, he being forced to be content with a statement of net to pay in respect of purchases and net to receive with regard to sales, the brokerage amount being added to the former and deducted from the latter, without indicating the quantum of brokerage and more often than not the rate of the transaction given to the investor is the highest in the case of purchases and the lowest in respect of sales of the recorded transactions of the day. The issue is, however, not so simplistic as this, as there is always the jobber's spread which the dealer cannot escape, and the recorded rates are the actual transacted rates, where the dealer could be a seller, in which case the rate would be lower of the bid and offer rates given by the jobber, or a buyer resulting in the rate being higher of the two rates quoted by the jobber. An ordinary investor is neither aware of this nor able to appreciate it. This rate is often exaggerated as the gap is relatively narrow in the case of active scrips, while the daily range of fluctuations is often five to ten times this gap. The balance of advantage would lie in not only indicating the rate and the brokerage separately but also the time of the transaction, as is the practice in the developed markets of the world.

Odd Lots

Odd lots constitute a major bugbear for the Indian investors. Out of a total market capitalisation of about Rs.60,000 crores, equities worth about Rs.10,000 crores are in odd lots. Investors normally receive 15% to 20% less than the market price for their sales and have to pay 15% to 20% more than the market price for their purchases of odd lots. Schemes evolved by some of the agencies and companies to fetch a better price for the investors have not proved to be much of a success.

In a significant move to alleviate the hardship of investors, the Bombay Stock Exchange has appointed 16 members as authorised odd lot dealers with effect from the 1st September, 1987. According to the norms laid down by the Exchange, these dealers have to pay to the sellers at rates prevailing on the previous day.
minus 10% in the case of securities whose prices are up to Rs.40, minus 7.5% in the case of securities whose prices are between Rs.40 and Rs.100, minus 5% in the case of securities whose rates are between Rs.100 and Rs.300 and minus 5% or less in case of securities whose rates are more than Rs.300. To begin with, the scheme is confined to companies whose registered offices are situated in Bombay. Later the scheme will be extended to companies whose registered offices are outside Bombay.

A separate trading session has also been arranged on Saturdays beginning from January, 1988 to facilitate odd lot dealings amongst members themselves. These sessions, which will help in consolidation of odd lots into trading lots dispensing with the requirement of sending odd lots to companies, have proved to be very popular. Delhi and Calcutta Stock Exchanges have also initiated steps similar to those adopted by the Bombay Stock Exchange to facilitate consolidation of odd lots into trading lots. Other Stock Exchanges are also expected to follow suit.

Laudable as these efforts are, they need to be supplemented for solving the problem fully. Companies may themselves be permitted to purchase the odd lots of their own shares preferably at the ruling price with the safeguard of prior approval of the General Body to prevent any misuse by the Board of Directors. These shares can then be reissued in marketable lots, if need be. Similar provisions exist in countries like the U.S.A and U.K. and there is no reason why we should not emulate the same. Companies Act, 1956 will, of course, have to be amended for the purpose.

Lack of Liquidity

Although there has been more than a ten fold increase in the turnover in the secondary market during the last one decade, the Indian stockmarkets have not yet been able to develop the requisite degree of liquidity in all the listed securities. About 900 issues no doubt get traded at present out of a total of about 3,600 issues listed on the Bombay Stock Exchange as against about 600 issues out of a total of about 3,250 listed issues a year ago. Still over 80 per cent of the turnover is confined to specified shares and even here the top ten scrips account for about 75 per cent of the turnover. The Indian stock markets are thus a peculiar amalgam of high volatility in respect of a few scrips and low liquidity in respect of a vast majority of them.

No systematic efforts have been made till recently to generate liquidity in listed securities. Bid and Offer On-line System for thinly Traded Securities (BOOSTS) launched by the Bombay Stock Exchange in January, 1988 has not proved to be effective. Companies seeking enlistment on the Bombay Stock Exchange are now required to appoint market makers. Success of this experiment needs to be watched with interest and transplanted to other Exchanges. Creation of market makers in respect of issues already listed is a more formidable task. Financial institutions can and should take the lead in the matter. Reservation of say even half a per cent of the new issues and grant of liberal bank finance to market makers would help greatly the process of improving liquidity in the Indian stockmarkets.

Insider Trading

Insider trading i.e. trading in securities by persons in possession of material non-public information relating to such securities, which is price-sensitive, strangely remains totally uncontrolled and has proved to be one of the biggest menaces to the investors. The provision contained in Section 307 of the Companies Act requiring shareholdings and debentureholdings of directors to be recorded and kept open for inspection of any shareholder or debentureholder during the period of 14 days before and 3 days after the Annual General Meeting of a company has proved to be totally ineffective in controlling such trading. Publication of half-yearly results by listed companies as required by clause 41 of the Listing Agreement in operation from the beginning of 1987 has also not minimised such trading. Not only Insider trading needs to be prohibited with provision for deterrent punishment for offenders under a suitable statutory framework but also enforced strictly and rigidly. Till such time Government comes out with the legislation, it behoves stockbrokers as trustees of public welfare not to put intrusions of "insiders" if they realise that these are based on non-public information.
Manipulation of Prices

Prices are the outcome of a host of factors, fundamental and technical, simultaneously operating on the market. It is almost like a national poll being the outcome of the judgement of hundreds and thousands of people continuously buying and selling in the market. It is, therefore, not possible to say whether the price registered in the market at any point of time is a correct price. Even so, manipulation of prices, always to the detriment of investors, is a common occurrence on Stock Exchanges. Making a fast buck, ensuring success of the public issue, getting higher advances from banks, having lower wealth-tax assessments, etc., are some of the major objectives of manipulation of prices. While manipulation of prices in frequently and thinly traded securities may be difficult, it is easy to do so in infrequently and thinly traded securities.

Strangely, there is no effective deterrent against manipulation of prices in the Indian stock markets. Expunging the quotations and taking disciplinary action against members of Stock Exchanges are unfortunately the only available measures and even these are rarely resorted to by the stock Exchange authorities. Drastic penal provision, including institution of criminal proceedings in a court of law against the manipulators, by the members of Stock Exchanges or not, on the lines of similar provisions embodied in the statutes of several advanced countries, is therefore called for if the menace of manipulation of stock prices has at all to be effectively controlled.

Customers' Protection Fund

Whenever a member of a Stock Exchange is declared a defaulter, the net assets remaining in the hands of the Defaulters' Committee after defraying costs, charges and expenses relating to the realisation of these assets are utilised to satisfy first the claims of the Exchange and the Clearing House run by the Exchange and then the admitted claims of members of the Exchange against the defaulter on a prorata basis. Only if any surplus is left thereafter, the claims of the clients of a defaulter member are considered by the Defaulters' Committee. The clients can, no doubt, go in for arbitration with the Exchange in respect of their claims and obtain awards in their favour and thereafter get the same filed in a Court of Law for decree. The decrees, however, cannot generally be executed as the defaulter invariably disposes of all assets before he is declared a defaulter.

Lack of suitable protection to the clients in the event of a member of a Stock Exchange being declared a defaulter has proved to be a major bottleneck in the flow of funds into industrial securities. The Ministry of Finance had, therefore, directed the Stock Exchanges of the country to set up Customers' Protection Funds. The Bombay Stock Exchange was the first to set up such a Fund. Established in October, 1986, the Customers' Protection Fund of the Exchange is patterned on the lines of the Securities Investor Protection Corporation of the U.S.A. and the Stock Exchange Compensation Fund of the London Stock Exchange. The fund is financed partly by way of a levy on the turnover of members collected at the rate of one rupee for every Rs.10 lakhs and partly by way of contribution from the listing fees collected at the rate of two per cent. The Fund had Rs.8.27 lakhs to its credit as on the 31st March, 1989 after having distributed about Rs.3.50 lakhs to the clients of one of the defaulter members. The Fund is being administered only for the benefit of the clients of the defaulter members of the Exchange and their beneficiaries in respect of genuine investment claims. The compensation that may be paid in respect of any single client is limited to Rs.10,000. It is, however, expected that this amount would progressively be raised in future with the increasing flow of money into the fund. While there is no ceiling on the amount of compensation that may be paid from the Compensation Fund of the London Stock Exchange, the Securities Investor Protection Corporation of the USA limits the payment to a single customer to $ 500,000 out of which claims on cash, as distinct from claims for securities, would not be more than $ 1,000,000. The Securities Investor Protection Corporation had $ 398.3 million to its credit at the end of 1988 besides a line of credit up to $ 500 million from the banks and $ 1 billion from the Securities and Exchange Commission which in turn can borrow the same from the U.S. Treasury. A similar dispensation in this country can help in grant of increased compensation from the Customers' Protection Fund.

Investors' Service Cell

The Bombay Stock Exchange had established a complaints cell about 8 years ago to look specifically into the complaints of investors. In pursuance of a Government directive, the cell was not only rechristened
as the Investors' Service Cell in 1986 to demonstrate clearly the service character of the cell but also strengthened with a senior-officer heading the cell to render expeditious service to the investors. About 2,000 complaints are received by the cell every month and out of this about 94% are against listed companies and the balance against stockbrokers. In 1988, the Exchange received in all 23,129 complaints - 21,983 against listed companies and 1,146 against members.

The complaints against companies mainly relate to non-receipt of refund/allotment advice, non-receipt of securities, delay in transfer of securities, non-receipt of interest/dividend, non-receipt of brokerage and underwriting commission, etc. Against members the complaints are primarily about non-receipt of securities bought and of sale proceeds of securities sold, non-payment of profits, etc.

The Investors' Service Cell tries its level best to redress the grievances as expeditiously as possible. In fact, in all the communications to the investors they are requested to contact the cell if their grievances are not redressed within a reasonable time, thereby clearly indicating to them the earnestness of the cell to resolve the problems of the investors. Out of the 23,129 complaints received by the cell in 1988, 17,378 complaints were disposed of.

The Investors' Service Cell is a bit handicapped while dealing with companies. The only powers the Stock Exchanges have against a delinquent company are suspension of dealings in the securities of the company and delisting of the same, both of which are not in the interest of the investors. The action of suspension of dealings for a few days taken by the Bombay Stock Exchange against a few companies, has, however, proved to be quite effective in as much as the public image of the companies concerned was damaged to a great extent. The Stock Exchanges need to be clothed with powers not only to fine the companies and the officers in default of these companies but also to launch both civil and criminal proceedings against them in a court of law in serious cases. As a safeguard against any misuse of these powers, Stock Exchanges may be permitted to do so only after obtaining prior approval of the Government in the matter.

With regard to disputes between members of the Stock Exchange and their clients, the Investors' Service Cell tries to resolve the dispute administratively as far as possible. Only when the cell is not able to do so due to claims and counterclaims by the disputants, the client is asked to refer the matter to arbitration. Such cases are, however, relatively few.

Conclusion

There is no stronger stimulus than investor protection to the growth of the market as the investor is the king of the market. This was clearly adumbrated by President Franklin D. Roosevelt when he remarked, while signing the Securities Act of 1933, that the goal of securities regulation is to change the law from caveat emptor (buyer beware) to caveat vendor (seller beware).

Despite the unprecedented growth of the market during the last one decade, investments in corporate securities including units of the Unit Trust of India hardly account for 7 per cent of the financial savings of the household sector and we have a long way to go before we are able to tap about 25 per cent of the household sector’s financial savings as is being done by several of the advanced countries of the world. Stock Exchange administration which acts as a custodian of investor protection has a crucial role to play in this regard. It has not only to be competent and honest but also tough to withstand the pressures from the mighty corporate world on the one hand and the fast growing securities industry on the other both of which largely contribute for the finances of the Stock Exchanges. The Securities and Exchange Board of India set up by the Government of India in April, 1988 with the primary objective of investor protection will no doubt act as a citadel of investor protection preventing any hesitant Stock Exchange administration from detracting from the path of proper dispensation of justice.

THE STOCK EXCHANGE, BOMBAY - NEW PROFIT - GENERATING OPPORTUNITIES FOR OVERSEAS INVESTORS @

M. R. Mayya
Executive Director
The Stock Exchange, Bombay

It is indeed a matter of great pleasure for me to participate in this conference on "Business and Investment Opportunities in India" and to share with you my views and experiences on "The Stock Exchange, Bombay - New Profit - Generating Opportunities for Overseas Investors".

The giant strides that the Indian economy has taken in recent years and the air of openness and policies of liberalisation pursued by the Indian Government have aroused keen interest among the international financial fraternity which today looks upon India as a major growth market for the decades ahead. My colleagues will be telling you about different interesting facts of the Indian scenario while I have this onerous task to take you on a short trip to the Stock Exchange, Bombay which with the exponential growth in its activities during the eighties has emerged as a major stock market not only among the developing markets but also as a market comparable with many of the developed markets. I have structured my talk under three major parts, viz., (i) The market at present and the growth parameters, (ii) emerging trends and developments, and (iii) investment opportunities for overseas investors.

Let us then begin with the great stock market revolution in India during the eighties in which the Bombay Stock Exchange being the premier Stock Exchange in the country played an important role. It will give you an opportunity to know about the developments which will be the cornerstone of future growth of the stock market in India.

The Market at Present and Growth Parameters

Eighties has been a decade of exponential growth on the Indian stock markets. Not only the markets have witnessed a quantum jump in the activities but more importantly the very characteristics of the Indian stock market has undergone a metamorphosis to emerge as a major entity in the Indian financial system itself. The changes have been so profound in character that it is rather difficult to visualize any comparable development in any other part of the world.

Primary and Secondary Market Growth

The extent of growth can best be understood through quantitative terms. For example the capital mobilized from the primary market has grown from a mere Rs.900 million during the late seventies to over Rs.80 billion during the current year 1989-90 and it is expected to cross the land mark of Rs. 100 billion by 1992-93, if not earlier. Indeed the recent spate of issues of over Rs. 2.5 billion each, which are mega issues by Indian standards, entering the market in quick succession and mature investor response to them coupled with good performance of several modest issues which entered the market amidst the blitzkrieg of mega issues were clear indicators of the soundness of the Indian capital market and the growing maturity of Indian investors.

On the secondary market, the average daily turnover on the Bombay Stock Exchange which accounts for nearly 2/3rds of the total secondary market turnover in India has jumped from about Rs.100 million in 1979-80 to over Rs.1,250 million (Rs.1.25 billion) during the current year. More important is the fact that around

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50,000 deals are struck on the Bombay Stock Exchange during the two-hour trading session on any given day which are quite comparable to about 80,000 deals executed on the New York Stock Exchange and about 30,000 deals that take place on the London Stock Exchange. In fact, the per-hour intensity of deals in Bombay is far more than that on New York and London as they have longer trading periods. Settlement of these deals in a smooth and orderly manner without any breakdown of the machinery has earned the confidence of the investors even though the prolonged settlement process leads to delay in realisation of transaction proceeds. Market capitalisation is today of the order of about Rs.600 billion, roughly 15 per cent of the GNP which though modest by international standards has improved from an abysmally low figure of Rs.35 billion constituting barely 3 per cent of GNP a decade ago.

India has the third largest investor population of around 12 million equity holders exceeded only by the United States with about 50 million stockholders and Japan with about 25 million stockholders. As a percentage of total population, however, it is about 1.5 per cent, the scope for expansion being thus tremendous.

The growth of Indian stock market during the current decade has earned for itself an important place in the global capital markets. The International Financial Corporation which monitors the Emerging Capital Markets in the world has put India as a major emerging market being among the first five major emerging markets in the world.

This impressive growth has been a direct result of the several measures adopted by the Government of India to liberalize its industrial and fiscal policies which encouraged the growth of the private sector and also investment in corporate securities. The first major step in this direction was taken in mid-seventies with imposition of a statutory requirement to dilute alien holdings by the companies coming under the Foreign Exchange Regulation Act, 1973 so as to become Indian companies. About 125 companies underwent Indianization process during the latter half of seventies and offered about Rs.1250 million of capital to the Indian public. These companies enjoying a good public image and profitable operations throughout the country enabled the Indian middle class to acquire equity of sound companies at favourable rates and ensured chances of better returns through regular dividends and more importantly significant capital appreciation. Dilution of FERA companies expanded the Indian investor population by about two million and more importantly brought in the non-traditional investors into the vortex of capital markets.

This was soon followed by a spate of issues of convertible and non-convertible debentures from several large and well-established companies going in for expansion and modernisation through sizeable capital investments. These two instruments, particularly the former, constructed and issued on attractive terms also won the confidence of the investors and provided a further impetus for the growth of the stock market.

Eighties also witnessed a shift in the Government attitude towards the private sector. The Government pursued a more open-door policy and set in the process of liberalisation. Several restrictions, which stymied the growth and diversification of industrial sector especially for the large houses, were done away with. Industries were not only permitted to set on the process of natural growth but were also allowed to expand and diversify amidst more liberal policy framework. Moreover, core sector of industries from which the private sector was kept away hitherto was opened to the private sector initiative. These companies turned to the stock market to mobilize the huge resources required to finance their new capital intensive projects and contributed to its expansion.

Equities were a poor hedge against inflation in India for a long time extending upto the end of seventies. The current decade, however, witnessed a new resurgence in security prices enticing the investors to be active on the stock market. While the Reserve Bank of India index of security prices showed a marginal rise of 2 per cent during the sixties and around 60 per cent in seventies, the index has smartly upped by over 275 per cent during the eighties. By comparison, the wholesale price index had registered an increase of 80 per cent, 160 per cent and 75 per cent respectively during these three decades.

The growing interest of the investors in the stock market securities found several other instruments to invest in when beginning with 1986 several mutual funds were floated by the Indian financial institutions and subsidiaries of the banks whose proceeds are being invested on the stock market. Entry of mutual funds on
the one hand provided an effective intermediation for non-traditional investors with moderate resources and lack of experience of the stock market to profit from the stock market investments. On the other hand, they have provided a stabilizing force on the stock market cushioning the wide speculative swings which otherwise harm the investors.

In fact, stability of the Indian stock market during the current decade is a distinguishing factor by itself. The exponential growth during the eighties and alternating phases of bullish fervour of 1985-86 followed by a prolonged recession of 1986-88 and subsequent re-emergence of buoyant trend did not destabilize the market structure. The smooth absorption of the manifold growth in the activity was achieved without any major problems. This could be achieved because of the constant monitoring and finely tuned regulatory system adopted by the Exchange authorities. The type of collapse that took place on the international stock markets on the 19th and 20th October, 1987 and again recently on the 13th October, 1989 due to endogenous factors has never occurred on the Indian stock markets because of constant vigil on the operations on the markets.

A study conducted by the Bombay Stock Exchange on stability of a market as measured by the volatility of the Stock Exchange indices has indicated that the Indian market was one of the stabler markets in the eighties with the volatility of price movements in India being significantly lower than those on various other international markets and being only marginally higher than the markets in London, Canada, Japan and Switzerland. This has conclusively indicated that the Indian stock markets have matured significantly and are able to withstand the variations in fortunes without having any perceptible influence on the fairness and orderliness in the market.

Emerging Trends and Developments

It is not contended that the Indian stock market is perfect and that there are no imbalances, structural or otherwise, in the markets. There are several deficiencies, some structural and others arising out of the growth syndrome. What is, however, heartening is that we in the Bombay Stock Exchange are currently in the midst of a major process of transformation which will have far reaching consequences and will considerably mitigate the problems if not totally solve them. Some of these measures are discussed below.

New Building Complex

The present trading ring of the Bombay Stock Exchange, which is a make shift arrangement, is extremely crowded with the result that the efficiency in executing deals is under constraints of physical movement and audibility. Several of the brokers are also facing acute shortage of space with many of them having been provided with only a table space which is hardly conducive for efficient operations and maintaining sanctity of broker-client confidentiality.

In order to overcome these twin problems and meet the requirements of future, the Stock Exchange has embarked upon construction of a new building which will house a state of art trading ring comparable with the best trading rings in the world. Keeping in tune with the practices adopted the world over, it is proposed to have only about 150 high activity scrips for trading on the floor while the remaining scrips will be traded through screens. The building will also provide more space to the stockbrokers and thereby help to improve their efficiency. The building is expected to be ready for occupation latest by the end of 1991.

Professionalisation of Stockbroking

Stockbroking has traditionally been an entrepreneurial business carried out by the individuals or partnerships. There had been no professional standards set or prescribed for one to enter this business. While the system had worked to everyone’s satisfaction so far, it has its own inadequacies to meet the requirements of the future. A step to rectify this lacuna has been taken through the recent permission given to the corporate entities to become members of the Stock Exchanges. Similarly, All-India Financial Institutions or their subsidiaries and the subsidiaries of the commercial banks in the public sector will also soon become members of the Bombay Stock Exchange. Professionals from other disciplines such as accounting, secretarial practice, management, etc., are also being inducted as members to improve professionalization of the stockbroking
business. However, we want to develop in the long run stockbroking as a distinct and independent profession by itself and a move in this behalf has already been made by the establishment of a training institute which is training Stock Exchange members and their associates in the first instance. It is proposed to make this institute as an entry point to the stockbroking business so that only those with the requisite outfit become stockbrokers.

**Computerisation and Back Office Automation**

Presently, the settlement process in the Stock Exchange is computerised but uses batch process of operations which has proved to be inadequate to cope up with the growing volume of business. Similarly back office work in stock brokers offices, bulk of which is presently handled manually, has also increased tremendously. The Exchange has therefore undertaken a multi-faceted computerisation programme which will provide for on-line settlement and back office automation in brokers' offices. This will not only reduce the settlement cycle but also provide for screen trading in a large number of less active scrips thereby helping in generation of greater liquidity to these scrips. Moreover, it will enable the Exchange to provide better information to the investors on a real time basis. The operations in the offices of the stockbrokers will also be rendered more efficient following reduction in their back office work. Besides, there will be a qualitatively better and real time monitoring of the market developments so that effective and timely measures to regulate the market can be taken.

**Establishment of a Share Depository**

Immobolization of share certificates and transfer of securities through ledger entries are of fundamental importance for a stock market to cope up with the growing volume of business. Experiences of U.S. stockbrokers during the sixties and early seventies when torrential flow of paper work threatened the stability of that market are well known to require any further elaboration. These ushered in share depositories in the U.S. followed by other markets. In India also steps have already been initiated towards this end. A beginning has already been made with the establishment of Stock Holding Corporation of India which presently handles the shares of financial institutions. The Bombay Stock Exchange has also taken steps in association with Bank of India who presently handle the Clearing House work of the Exchange, to form a BOI SHARHOLDINGS LTD., which once fully established will take over the Clearing House functions and also act as a depository for the members of the Stock Exchange in the first instance and its services will be extended to investors at large in a phased manner. Some other such depositories at other Exchanges are also being contemplated. Legal and other difficulties are being presently sorted out to ensure smooth functioning of these depositories. Once such depositories become fully operational, the market will be able to absorb a far greater volume of business than what is being handled at present.

Immobolisation of securities is only a part of the journey to ease the problem. Proposals are on to create a certificateless-society as has already been done in Norway and Denmark and as is being proposed in the United Kingdom by the establishment of TAURUS. In fact, a blue print to establish a Stock Holding Corporation on these lines was submitted by the Bombay Stock Exchange way back in 1979. Each investor would have an account with the Stock Holding Corporation with the shares purchased by him being credited to his account by a Deposit Slip and the shares sold by him being debited to his account by a Delivery Order. The mechanics of opening and operating an investment account would be simplicity itself, akin to pay-in slips and cheques making credit and debit entries respectively in the banking system. Shares will then become as liquid as cash, mobile and freely transferable, as funds flowing through banking accounts. It may, however, take some time for India to launch on to a certificateless society.

**Investor Services**

While the Bombay Stock Exchange came into existence way back in 1875 as an organization to protect the character and status of the brokers, it today acts as a repository of investors' interests. It takes cognizance of the acts of commissions and commissions carried out whether by the member brokers or by the listed companies which adversely affect the interests of the investors and ensure their speedy redressal.

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The Bombay Stock Exchange has an Investors' Services Cell which takes cognizance of the complaints of investors whether against the stockbrokers or the companies. Around 4,000 complaints are received by this Cell every month which are immediately taken up and pursued for redressal of grievances. This Cell has the distinction of having been efficient in its operations and achieved a high disposal rate which in turn has today earned the confidence and trust of the investors.

It is also necessary to indemnify an investor from the losses that he has to suffer if a stockbroker defaults. To provide such cover, the Stock Exchange has established a Customers' Protection Fund, which at present insures the investors to the tune of Rs.10,000 for their genuine investment claims against a defaulting stockbroker. The fund today has a corpus of about Rs. 1.5 million and since its establishment in 1986 the fund has paid about Rs. 0.35 million to the clients of a defaulting broker.

**Investment Opportunities for Overseas Investors**

Investment on Indian stock markets at present is not fully open to foreigners. The market has thus been insulated from the vagaries of international financial climate so as to enable it to develop and stabilize. This has been considered necessary as the economy is still not mature enough to withstand the destabilising forces from outside. As a result, foreign investment has been subject to a well defined and comprehensive provisions embodied in the Foreign Exchange Regulation Act of 1973. Direct foreign investment is as a rule allowed only in collaboration units wherein the foreign collaborator can contribute between 40% and 74% depending upon the status of the industry. Direct investment on stock markets is not allowed to foreigners except the non-resident Indians. Foreigners can, however, subscribe to the extent of 40% in a company owned by the non-resident Indians. Foreigners can also invest through the intermediation of country funds or offshore mutual funds floated for the purpose. Direct foreign investment is also permitted in case of specific funds floated by organisations such as the Asian Development Bank or the Commonwealth Development Corporation.

**Non-Resident Indian Investment**

While foreigners as a rule are not allowed to invest in the securities market, non-resident Indians are encouraged to invest in Indian securities both on repatriable and non-repatriable basis. The term non-resident Indian is a broad one encompassing within its orbit Indian citizens who are out of India either for business or employment and also persons of Indian origin who are citizens of other countries. Facilities provided to non-resident Indians are also available to a company predominantly owned (at least 60%) by the non-resident Indians. These non-resident Indian investments are subject to the rules and procedures prescribed for the purpose by the Reserve Bank of India as a central monetary and exchange regulatory authority.

Prior to the series of liberalisations made in the 1982-83 Budget with regard to investment by non-resident Indians, there did exist certain facilities for such investments. For example, non-resident Indians could freely purchase units of the Unit Trust of India, Government securities and National Plan Savings Certificates. Non-Resident Indians also could invest in securities of Indian companies on non-repatriable basis of both capital and income accruing therefrom. Income from units and investment in units was completely exempt from income-tax and wealth tax respectively for non-resident Indians with effect from the 31st October, 1978. In October, 1975, the Government also permitted non-resident Indians to subscribe to the new equity issues by new companies for setting up new projects in all industries barring certain exceptions governed by the Import Trade Control Public Notice dated the 8th February, 1974 which included industries like coal, textiles, milkfood, leather, matches, beer and alcoholic beverages, etc. Investment and income therefrom were fully repatriable provided such investments were through inward remittances or Non-resident External (NRE) Accounts.

The scheme was further liberalised in 1976 and NRIs were permitted to subscribe upto 74% of the issued capital of the company in respect of priority industries such as metallurgical industries, electrical equipments, transportation, industrial machines and machine tools, fertilizers, drugs and pharmaceuticals, chemicals, paper and cement, etc. Investment in other industries was also permitted provided the investor undertook an obligation to export at least 60% of the output which was further enhanced to 75% of the output in case of industries reserved for the small-scale sector.
As the facilities provided so far failed to achieve the desired objectives and there was no significant net inflow of non-resident Indian funds, the Government extended a series of liberal measures for attracting non-resident Indian investments through 1982-83 and 1983-84 budgets. These measures were widespread and as far as the securities investment is concerned, had the following features.

A. Investment in new issues of companies on full repatriation basis was allowed up to 40% of the new issues of equity and preference capital of the new or existing company raising a public issue through prospectus. This facility was also made available to investment in convertible securities. Investment in capital raised by either private or public limited companies other than through the issue of prospectus was also permitted up to 40% of the issued capital subject to a ceiling of Rs.4 million. In the case of priority sector industries and companies undertaking to export 60% of the output which is raised to 75% in case of industries reserved for the small scale sector, the extent of investment was permitted to the extent of 74%.

B. Portfolio investment in shares and convertible debentures was also liberalised with full benefits of repatriation provided they are purchased through a Stock Exchange and the purchase by a non-resident Indian does not exceed one percent of the paid up capital of the company and the investments are either through fresh remittances from abroad or through NRE/FCNR accounts with a bank in India. An overall ceiling of 5% of the paid-up capital of a company was imposed on total non-resident Indian investments under the portfolio scheme. There are, however, no limits on investment in non-convertible debentures and Master shares of UTI.

Non-resident Indians are permitted to subscribe freely on a non-repatriable basis to the new issues of any public or private limited company engaged in any business activities except real estate business and agricultural/plantation activities. Such investments are allowed up to 100 per cent of the issued capital of the investee company.

The above mentioned facilities of investment are available to overseas companies, partnership firms, societies, trusts and other corporate bodies owned directly or indirectly to the extent of at least 60% by non-resident Indians.

There are special tax concessions available to investment by non-resident Indians. These include the following:

(i) Interest income from units and National Savings Certificates is completely exempt from the income tax and the investment exempt from wealth tax.

(ii) Investment income from specified “Foreign Exchange Assets” i.e., shares in Indian companies, debentures of a public limited company, deposits with a public limited company, etc. are subject to income-tax at a flat rate of 20 per cent. Long-term capital gains accruing from transfer of these specified “Foreign Exchange Assets” are also subject to income-tax at a flat rate of 20 per cent.

(iii) Investment in “Foreign Exchange Assets” are exempt from wealth tax.

(iv) When the total income of non-resident Indians consists solely of investment income and/or long-term capital gains on which tax at the flat rate of 20% has been deducted at source, then the non-resident Indian is not required to file a return.

Even though non-resident Indians have been provided extensive incentives for investment in India, their response so far has been modest. As on 30th November, 1989, total direct investment of non-resident Indians in India was to the tune of Rs.16.72 billion while under portfolio scheme they had invested Rs.731.6 million in Indian securities. It is estimated that the total investible funds of non-resident Indians as a group are in excess of Rs.1500 billion. Thus their investments in India at present are a little over one per cent of their total investible funds.

In order to mobilize non-resident Indian investment funds in India, several mutual funds have been exclusively floated for mobilization of these resources. Important among these are India Investment Fund by ANZ Grindlays, Jardine Fleming's JF India Pacific Trust and CIFCO Hill Samuel Unit Trust. Their
performance seems to have been modest, but it is hoped that over the years these funds will do better and many more such funds will be floated.

**Offshore Mutual Funds**

Dynamism of Indian stock markets during the eighties has caught the attention of international financial community. Resurgence of Indian economy, presence of a well diversified industrial base and the process of liberalization of policies and mere openness in industrial and economic activities, a vast and growing domestic market and availability of the requisite infrastructure to become a major interational trade partner alongwith the sophistication of its financial markets puts India in a very special position and as safe a bet for investment as possible in any securities market across the world. It is but natural then that there is a renewed interest in India.

Revival of Indian economy and industries could not have come about at a more opportune time. The decade has witnessed a broadening of parking places for the global funds. Japan which had for many years dominated the market for foreign investments is peaking out while prospects in other developed countries are also rather limited and the fund managers in their quest for better opportunities have turned their eyes towards new industrialized countries of South East Asia and other developing countries like India.

While direct foreign investment in India is not permitted except for the investment by non-resident Indians as already indicated earlier and through collaboration managements for others, a via media has been found through floatation of country funds and offshore Mutual Funds. Country funds have proved their efficiency and utility for mobilization of foreign capital resources for investment in the country from which the fund has emanated. Several countries across the globe have tapped this source very successfully and India joined their rank through the launching of India Fund in London during 1986 by the Unit Trust of India - the major mutual fund operator of the country. This fund of the size of 110 million was succeeded by another fund, "India Growth Fund" launched by UTI once again, in New York in 1987 which had mobilized U.S. $60 million. Last year State Bank of India launched a private placement mutual fund "India Magnum Fund" in Antilles, Netherlands and following overwhelming response the fund was closed at $157 million. Several more of such funds are being structured by various operators to cater to different types of investors and will be launched in the days ahead. Agencies like Asian Development Bank and Commonwealth Development Corporation have also shown keen interest in the Indian stock market and a part of the proceeds that these institutions are mobilizing for investment in their constituent countries will be invested in the Indian stock market securities.

Performance of the three major country funds from India has been heartwarming. India Fund and India Growth Fund after an initial lacklustre performance are presently among the best performers within the several country funds. Both of these funds are quoted well above their Net Asset Value (NAV). The latest available figures for the end of December, 1989 show that India Fund with an NAV of 219.6 pence was quoted at 245 pence while India Growth Fund with an NAV of $14.79 was being quoted at $18.50. They are exceptions to the general rule that the market trades in such funds at prices lower than their Net Asset Values. Besides in October, 1988 India Fund came out with a rights issue and in spite of subdued stock market trends in the international arena, was subscribed to the tune of 66% of the offerings which is considered to be a good performance in the country fund market. The strength of these country funds is all the more remarkable because of the continuous depreciation of Indian rupee vis a vis the major currencies of the world including the US dollar and British Pound.

There are still a few hindrances in the way of full growth of the Indian offshore mutual funds, mainly the withholding of 45 per cent tax on long-term capital gains and the depreciating rupee value. It may be observed that several countries in Asia - Korea, Malaysia, Pakistan and Taiwan to name a few do not tax the long-term capital gains. Taxation policies are by nature dynamic and flexible and given the process of liberalization these anomalies could be corrected with the passage of time. Depreciating rupee is a reflection of structural imbalance in the Indian economy and foreign trade that the country is facing at present but should get corrected in the coming years.

**Future Prospects**

Future prospects of the stock market in India alongwith prospects of profitable participation therein
may be the question uppermost in the minds of foreign investors. As already stated India has embarked on an irrevocable process of liberalization of its industrial and economic policies. Indian industry is on the threshold of massive growth and diversification during the current decade. It will necessitate large investments which will have to be mobilized mainly from the stock markets. Burgeoning Indian middle class has already developed a niche for securities investment which should see further expansion in the years ahead. The door has not been fully thrown open to direct foreign investment but if the trends the world over are any indicators then India would also be an integral part of the global securities market. There will be an imperative need to encourage direct foreign investment subject, of course, to proper safeguards as access to institutionalized funds is becoming more and more restricted. Once this integration takes place, India will bridge an important slot between the Japanese and European markets and in the process will become a major market in its own rights.

India as of today is one of the stabler democracies in the developing world wherein there is a well developed legal and administrative system so necessary to instil a confidence in investors. Moreover over expanding middle class and a strong and diversified economic and industrial base gives India an enormous advantage to become a major international economy in the years ahead. This would make investment in Indian stock markets an attractive proposition, safe from vagaries of fluctuating policies and sound for substantial returns. On her part, India like several developing economies of the world is in need of financial resources to finance its projects and plans. Forty years of independent India has shown that we in India make a judicious use of scarce resources. Development of the stock market infrastructure is an ongoing dynamic process conscientiously and zealously pursued with a sense of mission. Investment on the Indian stock markets should therefore be as safe and as secure as in any of the developed markets in the world. The day may not, therefore, be far when the Indian stock market becomes an integral part of the global stock market circles.

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NRI INVESTMENT IN INDIAN SECURITIES MARKET *

BY

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The Indian stock market, because of its unprecedented growth and expansion during the decade of eighties and more importantly prospects of even greater expansion during the years ahead, is increasingly being looked upon as the market with vast potential by not only the resident Indians but also by the international financial fraternity. The market as at present, however, is not fully open to foreigners although investments by non-resident Indians is allowed both in the primary and secondary markets and very liberally in the former. This is considered necessary because the Indian market is still not mature enough to withstand the pressures from outside, which could at times be destabilizing. This has, of course, the advantage of insulation from the vagaries of international financial climate.

As a result, foreign investment has been subject to well defined and comprehensive provisions embodied in the Foreign Exchange Regulation Act of 1973. Direct foreign investment is as a rule allowed only in collaboration units wherein the foreign collaborator can contribute between 40 per cent and 74 per cent depending upon the status of the industry but cannot directly invest in stock markets.

While the Indian stock market is basically for Indians and foreigners as a rule are not allowed to invest in the Indian securities market, non-resident Indians are being increasingly encouraged to invest in Indian securities both on repatriable and non-repatriable basis. The term non-resident Indian is a broad one and within its ambit encompasses not only the Indian citizens who are out of India either for business or employment but also the persons of Indian origin who are citizens of other countries. Investment facilities enjoyed by the non-resident Indians can also be availed of by overseas companies, partnership firms, trusts, societies and other corporate bodies predominantly owned (at least to the extent of 60 per cent) by the non-resident Indians. These non-resident Indian investments are subject to the rules and procedures prescribed for the purpose by the Reserve Bank of India as a central monetary and exchange regulatory authority.

Liberalisation of Policies for NRI Investment

Facilities for non-resident Indians to invest in India existed for a long time but they received a major thrust following liberalisation of policies to a greater extent in the 1982-83 Budget. For example, prior to 1982-83 Budget, the non-resident Indians could freely purchase units of the Unit Trust of India, Government securities and National Plan Savings Certificates. Non-Resident Indians also could invest in securities of Indian companies on non-repatriable basis of both capital and income accruing therefrom. Income from units and investment in units were completely exempt from income tax and wealth tax respectively for non-resident Indians with effect from the 31st October, 1978. In October, 1975, the Government also permitted non-resident Indians to subscribe to the new equity issues by

new companies for setting up new projects in all industries barring certain exceptions governed by the Import Trade Control Public Notice dated the 8th February, 1974 which included industries like coal, textiles, milkfood, leather, matches, beer and alcoholic beverages, etc. Investment and income from such investment was fully repatriable provided such investments were through inward remittances or Non-resident External (NRE) Accounts.

The scheme was further liberalised in 1976. Non-resident Indians were permitted to subscribe upto 74 per cent of the issued capital of the company in respect of priority industries. The list of priority industries included metallurgical industries, electrical equipments, transportation, industrial machines and machine tools, fertilizers, drugs and pharmaceuticals, chemicals, paper and cement. Investment in other industries was also permitted provided the investor undertook an obligation to export at least 60 per cent of the output. This obligation was further enhanced to 75 per cent of the output in case of investment in industries which were reserved for the small-scale sector.

These measures, however, failed to achieve the desired goals as the facilities provided so far did not lead to a significant net inflow of non-resident Indian funds for investment purposes. The Government, therefore, promulgated a series of liberal measures for attracting non-resident Indian investments beginning with the 1982-83 and 1983-84 Budgets. These measures were widespread in their scope and as far as the securities investment is concerned had the following features.

**Investment on Repatriable Basis**

Investment in new issues of companies on full repatriation basis was allowed upto 40 per cent of the fresh issues of equity and preference capital by either a new or an existing company raising fresh capital through prospectus. NRIs could also invest to the same extent in convertible securities floated by the companies. Investment in capital raised by either private or public limited companies other than through the issue of prospectus was also permitted upto 40 per cent of the issued capital subject, however, to a ceiling of Rs. 4 million. In the case of priority sector industries and companies undertaking to export 60 per cent of the output (75 per cent in case of industries reserved for the small scale sector), investment was permitted to the extent of 74 per cent.

**Portfolio Investment on Repatriable Basis**

Portfolio investment in shares and convertible debentures was also liberalised with full benefits of repatriation provided they are purchased through a Stock Exchange and the purchase by a non-resident Indian does not exceed one per cent of the paid-up capital of the company (including the convertible debentures) and the investments are either through fresh remittances from abroad or through NRE/FCNR accounts with a bank in India. An overall ceiling of five per cent of the paid up capital of a company was imposed on total non-resident Indian investments under the portfolio scheme for investments both on repatriable and non-repatriable basis. There are, however, no limits on investment in non-convertible debentures and Master shares of UTI.

**Investment on Non-repatriable Basis**

Non-resident Indians are permitted to subscribe freely on a non-repatriable basis to the new issues of any public or private limited company engaged in any business activities
except real estate business and agricultural/plantation activities. Such investments are allowed up to 100 per cent of the issued capital of the investee company.

**Tax Concessions**

There are special tax concessions available to investment by non-resident Indians. These among others include the following:

(i) Interest income from units and National Savings Certificates is completely exempt from the income tax while the investment is exempt from the wealth tax.

(ii) Investment income from specified "Foreign Exchange Assets" i.e., shares in Indian companies, debentures of a public limited company, deposits with a public limited company, etc. are subject to income-tax at a flat rate of 20 per cent. Long-term capital gains accruing from transfer of these specified "Foreign Exchange Assets" are also subject to income-tax at a flat rate of 20 per cent.

(iii) Investment in "Foreign Exchange Assets" are exempt from wealth tax.

(iv) When the total income of non-resident Indians consists solely of investment income and/or long-term capital gains on which tax at the flat rate of 20% has been deducted at source, the non-resident Indian is not required to file a return.

Even though the non-resident Indians have been provided extensive incentives for investment in India, their response so far has been anything but significant. As on the 30th November, 1989, total direct investment of non-resident Indians in India was just Rs. 16.72 billion only while under the portfolio scheme they had invested Rs. 731.6 million in Indian securities which is a little more than one per cent of the total market capitalization. It is estimated that the total investible funds of non-resident Indians as a group are in excess of Rs. 2,500 billion with annual accruals of over Rs. 250 billion. The investments in India by the non-resident Indians at present is thus less than one per cent of their total investible funds and hence offers a vast and untapped potential.

This vast potential has been of late realized and various measures are being undertaken to attract such investment on a larger scale. In order to mobilize non-resident Indian investment funds in India, quite a few mutual funds have been exclusively floated for mobilization of these resources. Important among these are the two India Investment Funds by ANZ Grindlays, Jardine Fleming's JF India Pacific Trust and CIFCO Hill Samuel Unit Trust. Their performance seems to have been modest, but it is hoped that over the years these funds will do better and many more such funds will be floated. The full potential for NRIs investment in India has so far not been realized because of the several problems faced by the NRIs while investing in Indian securities. Non-resident Indians have also to some extent participated in the offshore Mutual Funds. Launching of the India Fund in London in 1986 by the Unit Trust of India heralded this era. This fund of the size of 110 million pounds was succeeded by another fund, "India Growth Fund" launched by UTI once again, in New York in 1987 which had mobilized US $ 60 million. Last year State Bank of India launched a private placement Mutual Fund "India Magnum Fund" in Antilles, Netherlands and following overwhelming response the fund was closed at $ 157 millions. Canbank
Mutual Fund will also shortly be launching in association with Indo-Suez Asia Investment Services Ltd., an offshore fund called "TS Himalayan Fund". The fund is expected to collect $100 million, 75 per cent of which will be invested in the Indian secondary markets. The shares of the fund which will be offered at $10.40 per share will be quoted not only on the International Stock Exchange, London but also on the Amsterdam Stock Exchange. Several more of such funds are being structured by various operators to cater to different type of investors and will be launched in the days ahead. Agencies like Asian Development Bank and Commonwealth Development Corporation have also shown keen interest in the Indian stock market and the part of the proceeds that these institutions are mobilizing for investment in their constituent countries will be invested in the Indian stock market securities.

Performance of the country funds from India has been heartwarming. India Fund and India Growth Fund after an initial lacklustre performance are presently among the best performers within the several country funds. Both of these funds are quoted well above their Net Asset Value. The latest available figures for the end of April, 1990 show that India Fund with an NAV of 217.47 pence was quoted at 258 pence while India Growth Fund with an NAV of $12.72 was quoted at $14.50. They are exceptions to the general rule that the market trades in such funds at prices lower than their Net Asset Values. Besides in October, 1988 India Fund came out with the right issue and inspite of subdued stock market trends in the International arena, was subscribed to the tune of 66 per cent of the offerings which is considered to be a good performance in the country fund market. The strength of these country funds is all the more remarkable because of the continuous depreciation of Indian rupee vis-a-vis the major currencies of the world including the US dollar and the British pound.

Problem Areas

1. Poor Marketing of Securities:

There is a two-fold problem in marketing of Indian securities to the non-resident Indians. First, relatively smaller size of issues and corresponding ceiling on issue costs forbids companies and the merchant bankers from effective marketing of issues and as a result the NRIs do not get adequate information about the prospective issues. A way out could be to exempt the genuine issue expenses relating to the marketing of securities to non-resident Indians from the ceiling on issue costs. Secondly, and perhaps more importantly, several issues aggressively marketed during the 1985-86 boom particularly by the fly-by-night operators failed to produce the 'promised' or 'implied' returns to the investors which has naturally resulted in non-resident Indians burning their fingers. This led to cooling of the NRI enthusiasm for the Indian stock issues. As a result, over the years the NRI investment in new issues has shown a declining trend. For example, a large number of capital issues offered to the NRIs in 1989-90 went abegging. Out of 187 Indian companies which went public that year, 31 offered capital to the tune of Rs. 1,799 million for NRI investment. However, as many as 18 issues were undersubscribed while eight issues were just fully subscribed and only five issues were significantly subscribed to by the non-resident Indians.

It is necessary that the NRI funds be tapped with due diligence. This segment needs to be nursed with utmost care so that a long-term mutually rewarding relationship is established and nurtured. Merchant bankers from both the public and the private sector
will have to share a greater responsibility in this regard. Issues should and must be promoted among the NRIs as indeed within the country on much more objective and fairer basis. Lack of information about the Indian stock markets in foreign newspapers and journals is acting as a major bottleneck. Attempts made by the Bombay Stock Exchange to induce newspapers like the Financial Times of London and the Asian Wall Street Journal to give quotations of atleast a few leading scrips on a regular basis have not so far borne any fruit.

A particular mention needs to be made in this connection of a leading company which offered Rs. 37.5 million to the non-resident Indians. As many as about 700 applications for the shares of the face value of Rs. 35 million were rejected by the company on flimsy grounds like Power of Attorney not being lodged in time, age being not mentioned, income tax permanent account number not being given, etc. It was rather unfortunate that the efforts of the Bombay Stock Exchange for a reconsideration of the issue did not succeed as the company adhered to purely legalistic grounds, ignoring the wider aspect of the issue. Had the issue been undersubscribed, there was little doubt about the acceptance of all the applications.

2. Procedural Formalities:

Non-resident Indians are often exasperated with the several formalities that have to be completed in order to build and maintain an Indian stock portfolio. These formalities are essential from the Indian point of view but for the non-resident Indians accustomed to easier procedures followed in the freer markets they may appear to be time consuming and quite bothersome and hence dissuade them from investing in the Indian markets. First, there is no reason why the permission granted by the Reserve Bank of India for sale of securities by non-resident Indians should be valid for four years only. A blanket permission to sell any time even after four years cannot result in any misuse of the facility. Secondly, in the case of an NRI investor desiring to reinvest the sale proceeds of their existing shareholding, at present they are required to take specific permission of the Reserve Bank of India for such reinvestment. But within the time taken by the Reserve Bank of India for giving such permission the designated bank where he has the NRE account deducts the tax at source at the applicable rate of income tax. For the investor to get his money back he has to apply for getting the refund. This can easily be avoided if on the basis of declaration by the NRI that he is reinvesting the sale proceeds, the banks are instructed not to deduct the tax at source. Thirdly, sale of shares held by non-resident Indians in favour of citizens of India or persons of Indian origin resident abroad on a non-repatriation basis is permitted without Reserve Bank’s permission if the shares are purchased by the transferee from the stock market through a member of a recognised stock exchange in India and the proceeds of such shares sold by the transferer are credited to his ordinary non-resident account with a bank authorised to deal in foreign exchange in India with no rights of repatriation outside India, pursuant to a notification issued by the Ministry of Finance on the 4th May, 1983 by virtue of the power vested in the Government under section 19(5) of the Foreign Exchange Regulation Act. When such shares sold are delivered to the investee company for registering the transfer, they must bear an endorsement accordingly under the stamp and signature of the member of the Stock Exchange through whom the shares were sold. A similar exemption is not available to non-resident Indians in respect of debentures, whether convertible or non-convertible, held by them. They have to obtain the permission of the Reserve Bank of India for the sale of debentures even if the sale is on non-repatriation basis. There is no reason not to extend this exemption to debentures by suitably amending section.
19(5) of the Foreign Exchange Regulation Act.

It is also worth mentioning in this connection that the storm raised over the transfer of shares bought by a London based group of companies in the shares of two leading Indian companies, which is now part and parcel of the Indian corporate history, has also raised some fundamental questions like the free transferability of shares bought on a Stock Exchange, etc.

The Government of India is no doubt seized of all these matters and with the ongoing process of liberalisation of policies and simplification of procedures, things have considerably improved in the recent years. It is worth observing in this regard that there is a definite move towards globalization of Indian markets. Recently, the Indian Prime Minister, Mr. V.P. Singh, while addressing the World Economic Forum stated that India intended to participate fully in the gradual process of global integration and inter dependence through trade, technology and investment. He had also stated in the same address that the Government was also considering ways of making the foreign investment policy more transparent and of ensuring speedier decisions. Already, the new industrial policy announced on the 31st May, 1990 has removed clearance requirements for foreign investment upto 40 per cent in the approved areas.

3) Falling Value of Indian Rupee:

Fast depreciation of Indian rupee in recent years has also played an important role in diversion of NRI funds away from the Indian markets. While in the short run, rupee may be going down in value, with the Indian economy poised for a take off during the nineties the rupee may hold its place in the years ahead and, therefore, investment in Indian securities may prove beneficial in the long run.

The decision recently taken by the Reserve Bank of India providing for refund of excess application money at the same original rate of foreign exchange at which it was remitted deserves special mention in this connection. What, however, is annoying to the investors is the malpractice indulged in by a number of companies of despatching refund orders after the 70th day from the date of closure of the subscription list without payment of interest at the stipulated rate of 15 per cent for the delayed period beyond the 70th day till the date of despatch.

4) Fiscal Concessions:

The fiscal concession of 20 per cent tax both on dividend and long-term capital gains extended to individual non-resident Indians is, however, not extended to overseas companies predominantly owned by non-resident Indians. They continue to pay at the higher rate of tax of 25 percent on dividend income and 45.5 per cent on long-term capital gains. This seems to have been mainly responsible for low level of interest by such overseas companies for investment in the Indian securities market. Government is well advised to look into this aspect so as to encourage such overseas companies to evince better interest in the Indian stock market. In order to ensure that there is no misuse in this regard, it can be stipulated that the concessional rate of taxation will be granted to only such corporate entities which are owned by non-resident Indians to the extent of at least 90 per cent.

5) Removal of One Per Cent Ceiling:
The low level of interest evinced by the non-resident Indians has virtually resulted in none of them touching anywhere the ceiling of one per cent of the paid-up capital of the company. The question of removing this ceiling, at least from the point of view of dismantling a psychological barrier, needs favourable consideration. Alternatively, the question of issuing shares above one per cent without voting rights can be considered.

**Prospects Ahead**

Notwithstanding certain adverse factors prevalent today, the Indian stock market offers some of the best opportunities on global scales for stock investment. International fraternity is already looking out for the ways and means to participate in the future prospects of investment in India. This is because of the following factors:

1) Indian economy is poised for a sound and well diversified growth in the years ahead. Already the growth rate has climbed to above 5 per cent during the 7th plan.

2) There is a well planned policy of liberalisation which is being pursued by the Government.

3) The burgeoning Indian middle class ensures a virgin and untapped market, far greater in size than any other market in the world, which can be tapped for a vast magnitude of products and services. In fact, the living style of about 100 million people is already said to be on a scale comparable to that of the developed economies.

4) Indian industries are growing at a much faster rate, the average during the 7th plan being more than 8 per cent, and are diversified on a wide spectrum. Moreover, there is a greater free play for the private sector in areas such as power and steel which were hitherto an exclusive reserve for the public sector.

5) Indian stock markets are vibrant and poised for a quantum growth during the years ahead. Moreover, the price-earnings ratios historically languished at conservative low-levels for several reasons, have, of late, shown signs of improvement. These will improve further with greater securitization of Indian economy and expansion in the private sector activities. A particular noteworthy factor is that while equities rose on an average by a mere two per cent in the 60s and by 60 per cent in the 70s, the rise in the 80s was over 260 per cent and this tempo is expected to be maintained in the 90s. Equally important is the fact that the Indian stock markets are well regulated and behaved in an orderly fashion during the hectic days of eighties. There is a move towards greater automation and transparency in the stock market. The Bombay Stock Exchange has already taken a lead in the matter. Instant trade capture, real time display of information and on-line processing of transactions through a mainframe computer will become operational hopefully by the end of 1991. This may eventually lead to trading through screens without the trading rings as in the case of London, Singapore and elsewhere. Efforts are also on to move towards a certificateless society. A two-stage journey is
envisaged for this purpose. Initially, the securities will be immobilised in depositories. A Stock Holding Corporation which is dealing with the securities of Financial Institutions has already been established. The Bank of India in collaboration with the Bombay Stock Exchange has also established BOI Shareholdings Ltd. to deal with the securities handled by the stockbrokers. In the second stage, securities will be dematerialised with holdings being accounted as in the banking system and as already developed by countries like Norway, Denmark and France. Protection of investors is of paramount importance for the Indian market authorities and regulators and the rules and procedures are being regularly amended to impart greater protection to the investors. Customers Protection Funds are being established at most of the Stock Exchanges in the country.

Thus, the Indian securities markets offer some of the best opportunities available for investment of which the NRIs should take early advantage of, given the special facilities accorded to them.

INDIAN CAPITAL MARKET DURING NINETIES

BY

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Eighties was a decade of monumental changes on the Indian capital market leading to a total revamp of its position and exponential growth in activities. The decade has, therefore, been rightly called the decade of capital market as the developments therein during the decade were unparalleled and unmatched by happenings in any other segment of the economy. As a result, the capital market of the country became the synosure of all eyes in the country and to some extent of the globe too. It has, however, to be said to the credit of all concerned and more so to the resilience of the system that the growth syndrome and the other profound changes that had taken place were smoothly absorbed in the mainstream without creating any major problems or hindrances in the operations of the market.

Growth During Eighties

The growth of the market is reflected in various indicators available. For example, the annual capital mobilization towards the end of seventies was barely one billion rupees a year. This witnessed a seventy fold rise with the estimated capital mobilization during 1989-90 exceeding Rs. 70 billion. During this period, market capitalisation also shot up from about Rs. 35 billion to over Rs. 900 billion in October 1990 accounting for about 20 per cent of the GNP now as against about 3 per cent ten years ago. Similarly, the daily turnover on the Bombay Stock Exchange, which was of the order of about Rs. 10 million in late seventies has grown to over Rs. 2 billion a day on several days during the current year. The investor population in the country has increased from a low figure of about 2 million towards the end of seventies to a respectable level of 15 million at present.

Impressive as the above quantitative figures are, what is of greater significance is the extent of qualitative changes in the character of the market. The corporate sector did not depend much on the stock market for mobilisation of resources and was dependent on the financial institutions for loan funds. The decade of eighties changed that scenario with not only the private sector but even the public sector increasingly tapping the stock market to raise the necessary financial resources. Entry of a number of mutual funds in a big way towards the close of the decade ushered in a new class of investors not possessing the requisite expertise to understand the mechanics of direct investment in stock market instruments to reap the benefits of the stock market activities by investing in these funds. Again eighties was the first decade in the history of independent India which saw stock investments act as more than a hedge against inflation. Media which also paid greater attention to the stock market developments helped in increasing investor awareness of the market. Market authorities and regulators also initiated during the decade several
measures to improve the quality of the market and to ensure greater safety for the investors. All these steps helped in altering the concept of stock market activities from that of a casino to one of constructive economic activity, part and parcel of the overall development process of the economy.

**Nineties A Decade of Investor Protection**

While eighties was an exciting decade given its greater emphasis on growth, nineties will lead to a more qualitative transformation in the market with growth being a more natural phenomenon. It will necessarily have to be a decade of investor protection as the emphasis will be rightly on improving the quality of services rendered to the investors who supply the requisite funds for the growth of the market. It will be fascinating to peep into the future and envisage the likely changes that are expected to take place during the nineties which will help in the emergence of the capital market as a vibrant instrument of growth by the time we enter the twenty-first century.

**Industrial and Economic Liberalisation**

Indian economy, prior to the eighties, was more a controlled economy with emphasis on the public sector attaining the commanding heights of the economy and the private sector playing a secondary role with several and often severe controls, physical and otherwise. The decade of eighties has, however, witnessed a gradual change with the private sector being given greater freedom of operation and being allowed to operate even in the core sector of industries which was hitherto an exclusive preserve of the public sector. While presenting the 1990-91 Budget, the Finance Minister has proposed equity participation by employees in the public sector undertakings, which may well prove to be a step towards at least partial privatisation of the public sector. The more liberalised environment for the private sector growth and the prospective privatisation of the public sector will obviously lead to greater securitisation of the financial investments.

**Growth Projections for Nineties**

During the nineties, the number of companies listed on the Stock Exchanges will rise from a little more than 6,000 to more than 10,000 with a paid up capital of all listed securities whether equity or preference shares or debt securities rising from about Rs. 250 billion to the tune of about Rs. 1,000 billion. The market value of listed equity is also expected to shoot during this period to over Rs. 3000 billion constituting at least 30 per cent of the gross national product. Annual capital mobilisation on the stock market will also zoom to over Rs. 200 billion by the time we enter the twenty-first century while the daily turnover will increase to over Rs. 10 billion on the Bombay Stock Exchange alone as the markets become more active. The number of stock market investors will increase manifold over from their present strength of 15 million to about 50 million with the number of shareholders in the country being close to those in U.S.A. which has the highest shareholding population in the world.

Such a growth in the overall market activity will naturally necessitate a more easy
access to the market for investors from any corner of the country through increase in the number of stock exchanges. Around 40 stock exchanges are expected to be functioning right across the country by the time we come to the end of this century as against 19 stock exchanges at present. In parallel, the number of brokers on the stock exchanges will also increase. With multiple membership and improved communication facilities, a national market system will emerge with the buyers and sellers in any part of the country being able to buy and sell at the best prices prevailing in any market in any part of the country.

At present, there is a very narrow spread of market instruments with only equity and preference shares, convertible debentures and bonds, convertible either partly or fully, and non-convertible debentures. The monopoly in respect of mutual funds enjoyed for a long time by a single institution has been broken. There are today a number of mutual funds, but all in the public sector, offering to the investors a wide choice of investments. Warrants and zero interest bonds have also recently made their appearance while cumulative convertible preference shares have proved to be non-starters. Moreover, secondary market trading is confined mostly to equity and equity related instruments. It has become imperative that the number of instruments available for investments will have to be further broadbased so as to cater to the needs of different investors and help at the same time the corporate sector to tap the market in the most economic manner. It can reasonably be expected that the field of mutual funds will be thrown open to the private sector which will stiffen the competition among the mutual funds hopefully resulting in better returns to the investors. Trading in options and futures which are prohibited at present may also have to be permitted so as to make the market full fledged and complete in respect of the investment instruments.

Ringless and Paperless Trading

The overall volume of trading is set to grow exponentially during the years ahead. However, the time taken for settlement of these transactions will go down sharply as the various measures taken for the purpose become stabilized and fully operational. At present, it takes even up to 30 days if not more, for an investor to receive shares purchased or proceeds of shares sold. Hopefully, this time will be reduced significantly with the stock exchanges switching over to automation and computerisation. The Bombay Stock Exchange has taken a lead in this regard and has launched its computerised trading and settlement plan. This plan which will become operational in stages from the middle of 1991, envisages restriction of floor trading for 150 highly active stocks while all other stocks will be transacted through the screen and once this is accepted by the brokers and the investors, in all eventualities, trading ring may become obsolete and may have only a sentimental value by the turn of the century with stocks being traded in a far greater volume than hitherto through the screen. Computerised or screen trading will also lead to an online settlement system as against the batch system prevalent today and can ensure reduction in the settlement period and even a possibility of a rolling settlement. As a result, stock instruments will become more liquid and realisation of transactions proceeds will be much faster. More importantly, computerised or screen trading and on-line settlement will help the exchange to monitor the market more efficiently and as a result corrective action can be taken on real time basis so as to avoid occurrence of crisis.
Along with a move towards ringless trading, there is a parallel development towards the paperless and certificateless society. The present system of dated transfer deeds and physical transfer of shares is an archaic system and has proved to be a major hindrance for the efficient performance of the market. It is necessary that instruments be immobilized in depositories initially and later be totally done away with, so that we move on to a certificateless environment as has already happened in some of the countries like Norway, Denmark and France and as is being planned by the United Kingdom under their TAURUS (transfer and automated registration of uncertificated stocks) system.

The Bombay Stock Exchange in its efforts to promote such an environment has already floated a company called BOI Shareholdings Ltd., to, inter alia, act as a depository for members of the exchange in the first instance and for investors at large later in a phased manner. A depository to handle the shares of financial institutions has already become operational. A string of such depositories spread all over the country or an amalgam of them under one single umbrella will eventually lead to immobilization of certificates and more efficient operations on the stock market.

This is only a first stage of the move towards a certificateless society. A proposal to establish a Stock Holding Corporation (SHC) to replace the present system of certificates and transfer deeds was submitted by late Mr. P.J. Jeejeebhoy, Chairman of the Bombay Stock Exchange, way back in 1979. According to this proposal, a Central Stock Holding Corporation is to be set up on a statutory basis with regional and area offices at all centres where there are stock exchanges. The State Bank of India and its subsidiaries and the nationalised banks with their branches all over the country would act as agents of the SHC. The SHC would be the sole central depository of securities acting as an agent simultaneously for and on behalf of investors and listed companies.

The mechanics of operation of this proposal would require each shareholder in the country to have an account with the proposed SHC. The shares purchased by him would be credited to his account while the shares sold by him would be debited to his account. When an investor buys the shares of a company, his broker would send him a Delivery Order for the shares bought. The investor would then fill in a Deposit Slip, attach it to the Delivery Order and hand them over to his bank. The bank would transmit the same to the SHC for crediting the investors' account with the shares bought. Similarly, when an investor sells, he will issue a Delivery Order to his broker. The broker would either deposit the Delivery Order in the account of the seller with the SHC or endorse it to the buying investor who would deposit it in his investment account with the SHC. The SHC would then debit these shares to the account of the seller investor and credit the same to the account of the buyer investor. An investor's account with the SHC would thus be credited and debited from time to time with the shares he has bought and sold. No share certificates or any transfer deeds would be involved. Each listed company will maintain with the SHC an account showing the shares held by its shareholders which will act as the Register of Members of the Company.
The above version with the due modifications need to be evolved as early as possible, at any rate by the end of the century, if the efforts to carry the cult of equity to the four corners of the country has to be really fruitful.

Investor Protection

Increasing complexities of the market make it more imperative that the investors be given complete protection. Investors often suffer loss for no fault of theirs when a stockbroker defaults. Strange as it may sound, in case of a default by a stockbroker, clients of the stockbroker are left high and dry as the net available assets of the defaulter go to meet the claims of the stock exchange in the first instance and of his market commitments there after, leaving virtually nothing for the clients. To mitigate such losses and to protect investors, the Bombay Stock Exchange had launched a Customers' protection Fund in 1986. Presently, investors are paid compensation subject to a maximum of Rs. 10,000 against their genuine investment claims whenever a broker is declared a defaulter. The scope of this fund needs to be expanded further to ensure immunity to the investors to the extent of at least Rs. 1,00,000, if not more, on the lines of similar funds in the developed markets of the world.

Stricter Regulation

The growth of the market in the 80s has unfortunately not been accompanied by a concomitant growth in the regulation of the market. Even countries like United States and U.K. where laisser-faire is practised to a greater extent in matters of licensing of industry and trade than in most other market oriented economies, the securities industry is subject to a very strict code of regulation. This is absolutely necessary in this country, particularly in the light of what happened in the mid 80's when a number of fly-by-night operators mopped up the hard earned savings of the gullible investors and a more or less similar experience was witnessed in respect of the mega issues towards the end of the last decade. A strong regulating body to oversee the entire securities industry and which will be respected like the Securities and Exchange Commission in the United States, is absolutely necessary in this country. It is only then that the concept of changing the law from caveat emptor (buyer beware) to caveat vendor (seller beware) adumbrated by President Franklin D. Roosevelt while signing the Securities Act of 1933, can be said to have become applicable in this country.

Integration with the World System

Indian stock markets are at present insulated from the global forces and access to foreigners is restricted to only non-resident Indians. This was necessary earlier because of the exigencies of time. However, fast growing communications systems and transnational economic involvements have turned the world into a large sized economic village. Events taking place in Europe such as more freedom for market forces in the East European countries and the proposed unification of Europe in 1992 will have major impact on the
global economic scene from which India cannot remain aloof. It may, therefore, be
necessary for Indian markets also to open up and to integrate with the global systems. The
Prime Minister has recently indicated that India intended to participate fully in the gradual
process of global integration and interdependence through trade, technology and invest-
ment. Already a small beginning has been made in this regard through country funds
floated overseas whose resources will be invested in the Indian stock markets. This will
gather further momentum and should gradually lead to an open Indian market fully
integrated with the international economic system.

Indian stock market scenario thus will undergo a thorough transformation during
the coming decade and it will be a captivating transformation worth watching and
participating as the Indian market is poised to emerge as a major international market in the
near future bridging the wide gap between Tokyo in the East and London in the west.