

INDIAN STOCK MARKETS: AN OVERVIEW

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Stock Exchanges in India

- Stock exchanges in India existed in rudimentary forms in the early 19th century, when the East India Company and few commercial banks floated shares sporadically.
- In 1947 India had 7 functioning stock exchanges.
- Currently, the two main stock exchanges in India are:
 - ***Bombay Stock Exchange (BSE): Founded in 1875***
 - ***National Stock Exchange of India (NSE): Founded in 1992***
- There are a few regional stock exchanges as well but the regulator is in the process of closing them down on account of poor business

Capital Markets before 1991: 1

- The stock exchanges were governed by elected representatives amongst brokers and were run more like private ownership institutions with broker interests taking precedence over the investor interests.
- The securities were held by investors in physical form and physically exchanged at the time of trading.
- Trading was conducted through a series of brokers and there was no mechanism with investors to verify the true value at which their shares were actually traded by brokers and thus depend upon integrity of brokers.

Capital Markets before 1991: 2

- Badla was a uniquely Indian system of carry forward of transactions involving four parties:
 - The long buyer – a buy position in a stock without the capacity to take delivery of the same,
 - The short seller – a sell position without delivery in hand,
 - The financier and,
 - The stock lender.
- In case of mismatch in purchase and sale position, the financier and stock lender would step in and contribute capital or stock to complete the deal and take a small fee for the services rendered.
- Investor protection was the weakest link and there was no mechanism to ensure the interests of small investors.

Capital Markets before 1991: 3

- SEBI, the market regulator, was established in 1992.
- Prior to SEBI's formation, the exchanges were run like personal fiefdoms of brokers. In spite of laws governing the functioning of stock exchanges, there was no mechanism to enforce regulation.
- The disclosure norms followed by corporate were grossly inadequate and they were often found wanting on corporate disclosure.
- The stocks were issued to public for subscription on the basis of price determined by controller of capital issues and not on the basis of market mechanism.
- The markets were plagued by the menace of rampant insider trading. The people in know of privileged information would take positions in the market before the information was made public.

Developments post 1991: 1

- The markets shifted from infamous Badla system to computerized and screen based trading system with trading terminals in different cities are connected by VSAT for online trading as well as internet trading.
- Further, dematerialised shares have replaced physical delivery of securities during this period as well as rolling settlement was introduced to speed up the transfer of ownership processes.
- The instituting of Securities and Exchange Board of India (SEBI) in 1992 has led to a landmark institutional development playing a pivotal role in development of markets.
- There has been marked improvement in corporate governance on issues like independent directors, audit committees, disclosure norms etc.

Developments post 1991: 2

- The demise of Badla and its various variants of carry forward mechanisms led to sharp fall in the trading volumes in the market creating a vacuum in the market for a good speculation product.
- In 1998, SEBI accepted the recommendations of Dr L C Gupta committee for a phased introduction of derivative products, implemented as follows:
 - In June, 2001 index options were introduced by NSE
 - In July, 2001, options in individual stocks were started by NSE
 - Futures in individual stocks were introduced by NSE in Nov, 2001
 - The Indian stock exchanges took a major step forward with the introduction of single stock future in 31 actively traded stocks. Presently, more than 100 stocks can be traded in futures.
 - Interest Rate Futures was introduced by NSE in May 2003; however that product is practically dead in the current context.
 - Currency Options are allowed in the OTC market in July 2003
 - Currency futures have been introduced in August 2008 on NSE.

BOMBAY STOCK EXCHANGE



Bombay Stock Exchange: History

- Bombay Stock Exchange (BSE), now known as 'BSE Limited', is the oldest stock exchange in the entire Asia.
 - The history of BSE can be traced back to 1850s when a group of five stock brokers used to conduct meetings under the banyan tree in front of Mumbai Town Hall.
 - As the number of the brokers increased, they started changing the venue of the meeting constantly.
 - Almost two decades later, this small group moved to the Dalal Street in 1874, and later, in the following year, it was recognized as an official organization by the name 'The Native Share & Stock Brokers Association'.
 - With the enactment of the Securities Contracts Regulation Act in 1956 by the Government of India, BSE became the first stock exchange to be recognized by the Government of India in 1956



Bombay Stock Exchange: Some Salient Facts

- As of March 2012, there are more than 5,133 Indian companies listed in the stock exchange market – this makes the BSE as the world's No. 1 exchange in terms of listed members.
- The companies listed on BSE Ltd command a total market capitalization of USD 1.32 trillion as of January 2013.
 - BSE is also one of the world's leading exchanges (3rd largest in December 2012) for Index options trading (Source: World Federation of Exchanges).
- BSE also provides a host of other services to capital market participants including
 - Risk management
 - Depository Services (through Central Depository Services Limited (CSDL))
 - Clearing and settlement
 - Market data services
 - Investor education and capital market education (through the BSE Institute Ltd.)
- BSE's popular equity index - the S&P BSE SENSEX - is India's most widely tracked stock market benchmark index and is traded internationally on the EUREX as well as leading exchanges of the BRICS nations (Brazil, Russia, China and South Africa).



Milestones achieved by BSE – 1

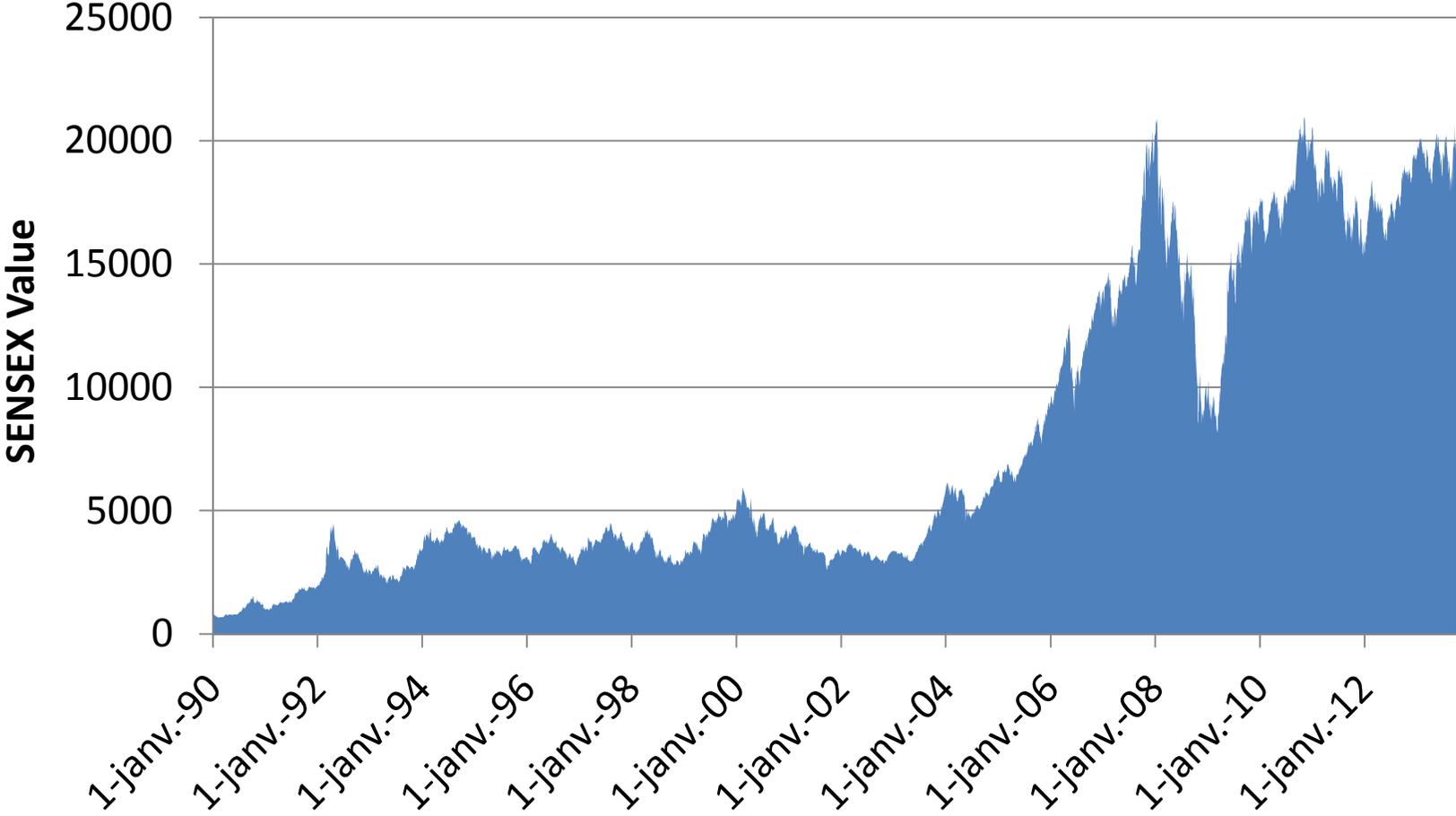
July 9, 1875	The Native Share & Stock Broker's Association formed
August 31, 1957	BSE granted permanent recognition under Securities Contracts (Regulation) Act
January 2, 1986	S&P BSE SENSEX , country's first equity index launched (Base Year:1978-79 =100)
July 25, 1990	SENSEX closes above 1000
January 15, 1992	SENSEX closes above 2000
March 30, 1992	SENSEX closes above 4000
October 11, 1999	SENSEX closes above 5000
February 11, 2000	BSE SENSEX crosses 6000 intra-day
June 2, 2004	BSE SENSEX closes above 6000 for the first time
May 17, 2004	Second biggest fall of all time, Circuit filters used twice in a day (564.71 points, 11.14%)
May 25, 2005	BSE (Corporatisation and Demutualisation) Scheme, 2005 announced



Milestones achieved by BSE – 2

July 9, 1875	The Native Share & Stock Broker's Association formed
August 19, 2005	BSE becomes a corporate entity
February 7, 2006	SENSEX closes above 10000
January 10, 2008	BSE SENSEX All-time high 21206.77
May 18, 2009	BSE SENSEX rises by 2110.70 points (17.34%) and Index-wide upper circuit breaker applied

BSE SENSEX Movement for the period January 1, 1990 – October 7, 2013



Products at BSE

- Equity
- Derivatives
- Indices
- Debt
- [Securities Lending and Borrowing](#)
- ETFs / Mutual Funds

NATIONAL STOCK EXCHANGE OF INDIA



National Stock Exchange of India: History

- National Stock Exchange of India (NSE) is the other main stock exchange in India and has volumes greater than BSE as well.
- NSE was promoted by leading Financial Institutions at the behest of the Government of India and was incorporated in November 1992 as a tax-paying company unlike other stock exchanges in the country.
- NSE was also the first stock exchange anywhere in the world which started operations on a completely automated screen-based trading system with national reach. This has brought about unparalleled transparency, speed & efficiency, safety and market integrity.
- NSE has also been at the forefront of several innovations in products and services like
 - Demutualisation of stock exchange governance
 - Screen based trading
 - Compression of settlement cycles,
 - Dematerialisation and electronic transfer of securities
 - Securities Lending and Borrowing
 - Professionalisation of trading members
 - Fine-tuned risk management systems
 - Emergence of clearing corporations to assume counterparty risks
 - Market of debt and derivative instruments
 - Intensive use of information technology



National Stock Exchange on India: Some Salient Facts

- As of September 2013, there are more than 1,675 Indian companies listed on NSE.
 - The companies listed on NSE command a total market capitalization of USD 950 billion as of September 2013.
 - The average daily turnover in the F & O segment is USD 25 billion
 - The average trade size in the Whole Sale Debt Market segment is USD 6 million
- NSE also provides a host of other services to capital market participants including
 - Risk management
 - Depository Services (through National Depository Services Limited (NSDL))
 - Clearing and settlement
 - Market data services
- NSE's popular equity index – the CNX Nifty 50 is traded internationally on the Singapore Exchange and will be soon available on London Stock Exchange as well as Tokyo Stock Exchange.



Milestones achieved by NSE – 1

November 1992	Incorporation
April 1993	Recognition as a stock exchange
June 1994	Wholesale Debt Market segment goes live
November 1994	Capital Markets (Equity) segment goes live
April 1995	Establishment of NSCCL, the first Clearing Corporation
October 1995	Becomes largest stock exchange in the country
April 1996	Launch of CNX Nifty
November 1996	Setting up of National Securities Depository Limited, first depository in India, co-promoted by NSE
December 1996	Commencement of trading/settlement in dematerialised securities
February 2000	Commencement of Internet Trading
June 2000	Commencement of Derivatives Trading (Index Futures)
September 2000	Launch of 'Zero Coupon Yield Curve'



Milestones achieved by NSE – 2

June 2001	Commencement of trading in Index Options
July 2001	Commencement of trading in Options on Individual Securities
November 2001	Commencement of trading in Futures on Individual Securities
December 2001	Launch of VaR for Government Securities
January 2002	Launch of Exchange Traded Funds (ETFs)
October 2002	Launch of NSE Government Securities Index
January 2003	Commencement of trading in Retail Debt Market
June 2003	Launch of Interest Rate Futures
June 2005	Launch of Futures & options in BANK Nifty Index
June 2007	NSE launches derivatives on Nifty Junior & CNX 100
October 2007	NSE launches derivatives on Nifty Midcap 50
January 2008	Introduction of Mini Nifty derivative contracts

Milestones achieved by NSE – 3

March 2008	Introduction of long term option contracts on CNX Nifty Index
April 2008	Launch of India VIX / Securities Lending and Borrowing Scheme
August 2008	Launch of Currency Derivatives
August 2009	Relaunch of Interest Rate Futures
November 2009	Launch of Mutual Fund Service System
December 2009	Commencement of settlement of corporate bonds
February 2010	Launch of Currency Futures on additional currency pairs
July, 2010	Commencement of trading of CNX Nifty Futures on CME
October, 2010	Introduction of European Style Stock Options / Currency Options on USD INR
November, 2010	Launch of mobile trading for all investors

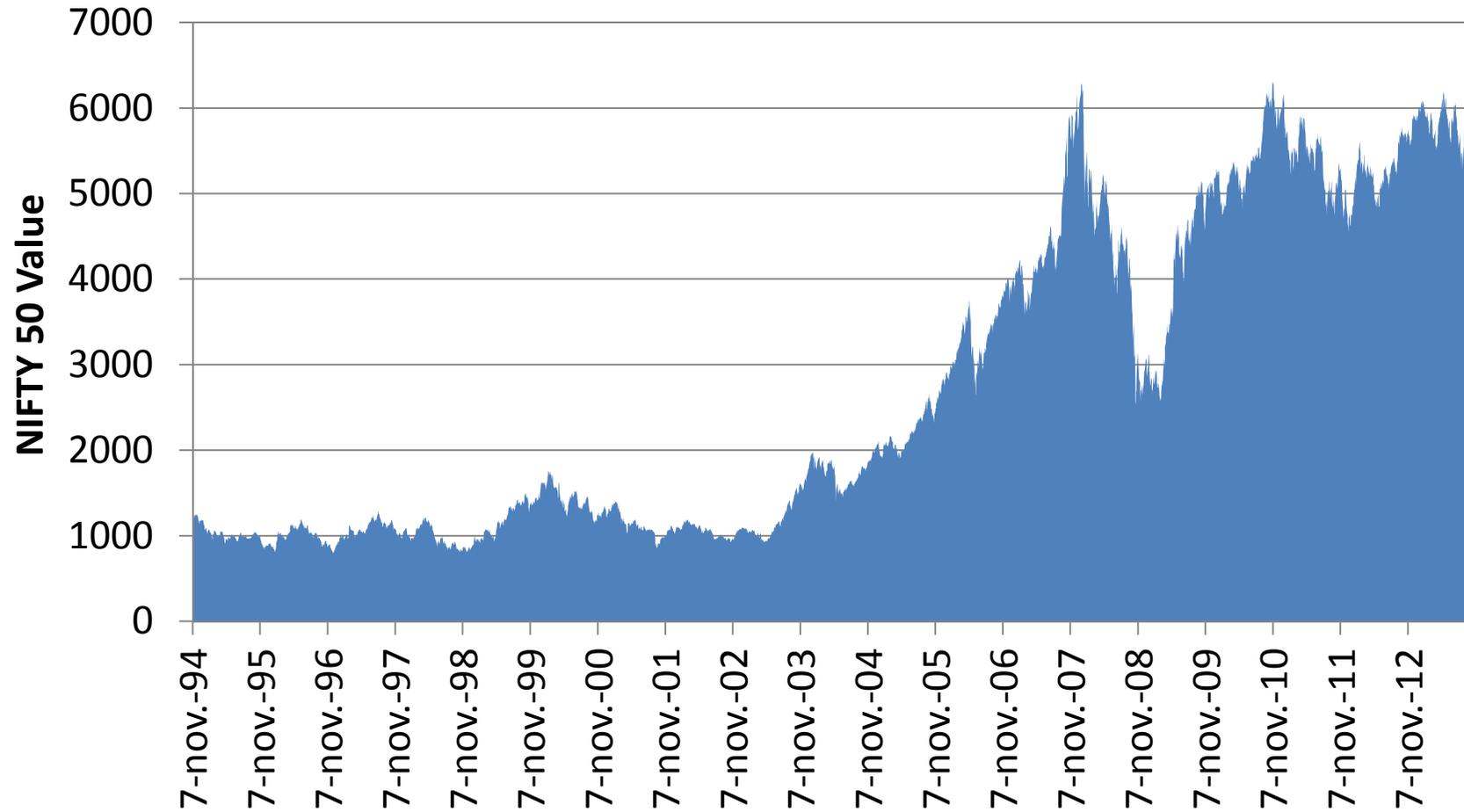


Milestones achieved by NSE – 4

July, 2011	Commencement of trading in 91 Day GOI Treasury Bill - Futures
August 2011	Launch of derivatives on Global Indices
September 2011	Launch of derivatives on CNX PSE and CNX Infrastructure Indices
March 14, 2012	NSE launches “EMERGE” - SME Platform
May 03, 2012	Futures and Options contracts on FTSE 100
September 18, 2012	NSE launches SME operations



NIFTY 50 Movement for the period November 1, 1994 – October 7, 2013



Products at NSE

- **Equities**
 - Equities
 - Indices
 - Mutual Funds
 - Exchange Traded Funds
 - Initial Public Offerings
 - [Security Lending and Borrowing](#)
- **Derivatives**
 - Equity Derivatives
 - Currency Derivatives
 - Interest Rate Futures
- **Debt**
 - Retail Debt Market
 - Wholesale Debt Market
 - Corporate Bonds

MCX – SX

MCS – SX: Salient Facts

- MCX Stock Exchange Limited (MCX-SX), India's newest stock exchange granted permission on December 21, 2012 and commenced operations from February 11, 2013.
- MCX-SX offers an electronic, transparent and hi-tech platform for trading in
 - Capital Market (Equity)
 - Futures & Options
 - Currency Derivatives
 - Debt Market
- MCX – SX has also received in-principle approval from the regulator to operationalize the SME trading platform.
- 'SX40', is a free-float based index of MCX – SX and it consists of 40 large – cap, liquid stocks representing diverse sectors of the economy. Its base value is 10,000 and base date is March 31, 2010.



SOME MAIN MARKET SCAMS

Harshad Mehta Scam

- Harshad Mehta, a stock broker became a messiah of stock market in the 1990 – 1991 period.
- He created mayhem in the market by manipulating the loopholes in the functioning of banking system especially their trading system in government securities (though misuse of the banker's receipts).
- By siphoning of funds from banking system through misrepresentation and also in collusion with some banking authorities, he rigged market prices of some of the scripts to unimaginative levels.
- And when the bubble bust, it affected the integrity of stock market, banking system and made a severe dent in investors' confidence for a long time to come.

Ketan Parikh Scam

- By 2000, the financial system had undergone significant improvement in terms of regulation. However, the scam attributed to Ketan Parikh again brought attention to the weaknesses in the financial system and its amenability to rigging.
- While Harshad Mehta manipulated the formal banking system, Ketan Parikh found the poorly regulated cooperative banks safe heavens to fund his rigging of stock market.
- He misused the funds of Madhavpura Mercantile Cooperative Bank in Gujarat to take the prices of certain new economy shares to stratospheric levels.
- And when the bubble bust, it again left behind a trail of bruised capital market, financial system and shattered investors.

Thank You!



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Securities Lending and Borrowing - 1

- **Securities' Lending and Borrowing** Securities' Lending and Borrowing describes the market practice whereby securities are temporarily transferred by one party (the lender) to another (the borrower) via an approved intermediary. The Borrower is obliged to return them either on demand or at the end of an agreed term and also has an option to early return. Lender may recall securities at any time within normal market settlement cycle.
- SLB is a major and growing activity which provides significant benefits for issuers, investors and traders alike. SLB helps in improving market liquidity, more efficient settlement, tighter dealer prices and perhaps a reduction in the cost of capital.
- **Why participate in Securities Lending & Borrowing ?**
 - **Lender's Motivation**
 - It provides lender incremental return on an idle portfolio
 - **Borrower's Motivation**
 - To cover a short position : avoidance of settlement failure
 - Hedging of futures & options positions
 - Borrow and lend to reap benefits of the market sentiment
- **Salient Features in SLB**
 - SLB Contracts up to 1 year (12 monthly contracts)
 - Early Return and Recall
 - Base Minimum Capital reduced to NIL
 - No separate exe – Login same as BOLT
 - Facility of Early pay-in



Securities Lending and Borrowing mechanism



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