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## **A study on developments in capital market: Market efficiencies revisited**

**Karteek Madapana, M. P. Suri Ganesh**

### **Abstract**

Much has happened in the Indian capital market in the last 17 years. With its foundations laid in socialist based economy of four decades, with strict government control over private sector participation, foreign trade and foreign direct investment, India opened its gates to the outside world in the early 1990s. Since then its economy and financial markets underwent radical changes, largely in response to the economic crisis of the late 1980s. The government control on foreign trade and investment were loosened and the barriers to entry in the days of the license raj were relaxed. The emergence of Securities and Exchange Board of India (SEBI) as the supreme capital market regulator showed India's commitment to come across as a strong economic force, through establishing market best practices of enhanced corporate disclosure and increased investor protection.

The establishment of National Stock Exchange (NSE), a state-of-the art exchange, with sophisticated technology to improve trading practices and reduce unethical dealings, supported by a strong legal framework and technological base to strengthen the governance structure, has been the highlight of the Indian capital market in the last decade. The opening up of the economy has increased the flow of Foreign Direct Investment (FDI) and has put India on the global map, as a new-age economic force to reckon with.

This paper attempts to discuss the journey of the Indian capital market from the pre-reform era to the current era of liberalization and enhanced governance.

**Keywords:** Capital market, SEBI, Governance, recent trends, stock exchanges.

### **1. Introduction**

The Indian regulatory and supervisory framework of securities market in India has been adequately strengthened through the legislative and administrative measures in the recent past. The regulatory framework for securities market is consistent with the best international benchmarks, such as, standards prescribed by International Organization of Securities Commissions (IOSCO). Recent capital market reforms and an agenda for reforms are given below.

- Extensive Capital Market Reforms were undertaken during the 1990s encompassing legislative regulatory and institutional reforms. Statutory market regulator, which was created in 1992, was suitably empowered to regulate the collective investment schemes and plantation schemes through an amendment in 1999. Further, the organization strengthening of SEBI and suitable empowerment through compliance and enforcement powers including search and seizure powers were given through an amendment in SEBI Act in 2002. Although dematerialization started in 1997 after the legal foundations for electronic book keeping were provided and depositories created the regulator mandated gradually that trading in most of the stocks take place only in dematerialized form.
- Till 2001 India was the only sophisticated market having account period settlement alongside the derivatives products. From middle of 2001 uniform rolling settlement and same settlement cycles were prescribed creating a true spot market.
- After the legal framework for derivatives trading was provided by the amendment of SCRA in 1999 derivatives trading started in a gradual manner with stock index futures in June 2000. Later on options and single stock futures were introduced in 2000-2001 and now India's derivatives market turnover is more than the cash market and India is one of the largest single stock futures markets in the world.
- India's risk management systems have always been very modern and effective. The VaR based margining system was introduced in mid-2001 and the risk management systems have withstood huge volatility experienced in May 2003 and May 2004. This included

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real time exposure monitoring, disablement of broker terminals, VaR based margining etc.

- India is one of the few countries to have started the screen based trading of government securities in January 2003.
- In June 2003 the interest rate futures contracts on the screen based trading platform were introduced.
- India is one of the few countries to have started the Straight through Processing (STP), which will completely automate the process of order flow and clearing and settlement on the stock exchanges.
- RBI has introduced the Real Time Gross Settlement system (RTGS) in 2004 on experimental basis. RTGS will allow real delivery v/s. payment which is the international norm recognized by BIS and IOSCO.
- To improve the governance mechanism of stock exchanges by mandating demutualization and corporatisation of stock exchanges and to protect the interest of investors in securities market the Securities Laws (Amendment) Ordinance was promulgated on 12th October 2004. The Ordinance has since been replaced by a Bill.

### Stock Market Efficiency in India

In the empirical literature on capital market efficiency, the hypothesis that futures price is an unbiased predictor of the future spot price has been one of the most controversial topics among the researchers, analysts and academicians. The study of the efficiency of the futures market is significant in an emerging market like India as futures market serves the most important functions of competitive price discovery, management of risk, facilitating financing, and promotion of efficient resource allocation. Thus, this chapter is an attempt to test the long-term efficiency of futures market in India. The application of unit root and Co integration tests provide the evidence of the futures market efficiency in India. Efficient price discovery in the futures market implies that traders can take significant hedging positions to minimize the risk exposure in the spot market.

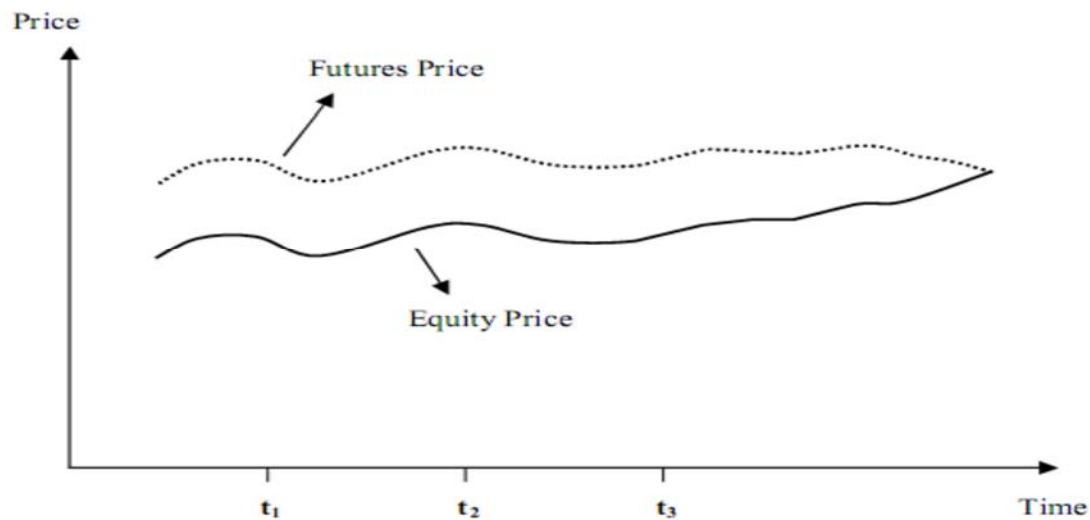
The study of efficiency of emerging capital markets is becoming more important as a consequence of integration of these markets with more developed markets and free movements of investments across geopolitical boundaries. The term market efficiency is used to explain the relationship between information and share prices in the capital market literature. Efficient capital markets are commonly thought of as markets in which security prices fully reflect all relevant information that is available about the fundamental value of the securities. In an efficient market, the prices of stocks incorporate all relevant information and hence, stock returns display unpredictable (or random walk) behaviour typical of

the stock market. A market following a random walk is consistent with equity being appropriately priced at an equilibrium level, whereas the absence of a random walk infers distortions in the pricing of capital and risk. This has important implications for the allocation of capital within an economy, and hence, for overall financial development. In this perspective, tests of market efficiency and more particularly, random walks, provide an important means by which financial development can be appraised.

The important functions carried out by a futures market in all economies are the price discovery and Hedging. Futures are the standardized exchange traded contracts. The price of the futures contract is determined by following the cost of carry model, which implies that futures represent the prospective price of the underlying asset in the cash market (Garbade and Sibley (1983)). For example; if the futures is traded at 2500 and the cash market at 2450, (if cost-of-carry model holds good) it implies that the futures will direct the next price move in the cash market, thus the next price of the underlying asset will be approximately 2500.

Price discovery is a function of the cost-of-carry model, which implies that price discovery will be true only if cost-of-carry model holds good (Turkington and Walsh (1999)). In other words, if at any time the futures are mispriced then lead-lag relationship between futures and cash market may be disturbed, which will result into wrong decision for the traders to take position in the cash market on the basis of the price movement in the futures market. In addition, if the futures are mispriced then hedging through arbitrage positions in the cash and the futures market will not work in the interest of the traders.

In addition, an efficient cost-of-carry relationship between the futures and cash market results in the co-movement of price series in two markets. Co-movement of price series of both markets is an evidence that price movement in both markets is cointegrated, but evidence of cointegration does not tell anything regarding the speed of price discovery in the market; rather it conveys very significant information regarding the strength of the basis (i.e. Futures Price – Cash Price) (Booth *et al.*, 1999). If on the date of the maturity of the contract, price series in two markets converges (Figure 4.1), it implies that cost-of-carry model holds good and both the series have long run relationship. If reverse holds, then it implies that the futures are mispriced and may not be an efficient price discovery vehicle (Garbade and Sibley, 1983). For an efficient convergence on the maturity date the basis is required to be predictable, but predictable basis does not necessarily imply that speedier price discovery takes place in the futures market (Fortenbery and Zapata, 1997).



Efficient price discovery in the futures market has many advantages for the traders as well as for the regulators. Traders can manage their risk exposure in the cash market by taking reverse positions in the futures market. In many stock markets it has been observed that the volatility in the cash market has reduced in the post futures trading era as compared to the volatility in the pre futures trading era (Gulen and Mayhew, 2000). Reduction in the magnitude of volatility will certainly work for the benefit of all traders (both retail as well as big traders). Reduction in volatility ensures relatively stable price movements in the market.

The objective of this part of the thesis is to build a theory for testing of market efficiency by undertaking econometric models and to try to establish a conclusion about EMH in emerging financial markets. If the National Stock Exchange of India (NSE) was efficient, the stock prices would correctly and fully reflect all relevant information and hence, no arbitrage opportunities would exist. Thus, in broader sense the implication of efficiency, is that stock prices always reflect their intrinsic worth and can be taken at their face value.

### Securities markets

#### Corporation and Demutualization of Stock Exchanges

Out of the 23 erstwhile stock exchanges, 18 have since been corporative and demutualised in 2007-08. One stock exchange, i.e. Hyderabad Stock Exchange, failed to demutualise by the due date and has therefore been de-recognized. Saurashtra Kutch Stock exchange, Mangalore Stock exchange and Magadh Stock exchange have been de-recognized for various irregularities/non compliances. As regards Coimbatore Stock Exchange which had sought voluntary withdrawal of recognition, the matter is sub-judice.

#### Corporate Bond Markets

The Government had set up a High-Level Expert Committee on Corporate Bonds and Securitization (Patil Committee) to look into legal, regulatory, tax and market design issues in the development of the corporate bond market. The Committee submitted its report to the Government in December, 2005. The Budget of 2006-07 announced that the Government has accepted the recommendations of the

Report and that steps would be taken to create a single, unified exchange-traded market for corporate bonds. The measures already taken in respect of implementation of the recommendations of the Patil Committee include:

- The regulatory jurisdiction of RBI and SEBI with respect to regulation of corporate bond market has been clarified. SEBI is responsible for primary and secondary debt market while RBI is responsible for the market for repo/reverse repo transactions in corporate debt.
- The Securities Contracts (Regulation) Act, 1956 has been amended to include securitized instruments within the ambit of "securities".
- The RBI Act has been amended to empower RBI to develop and regulate market for Repos in corporate bonds.
- The limit of FIIs investment in corporate bonds has been increased to USD 20 billion and the incremental limit of US \$ 5 billion has to be invested in corporate bonds with residual maturity of over five years issued by companies in infrastructure sector.
- The trade reporting platform for corporate bonds has been operationalised since 1st January, 2007.
- SEBI (Issue and Listing of Debt Securities) Regulations, 2008 simplifies disclosures and listing requirements.
- Repos in corporate bonds have been permitted, following RBI guidelines, since March 2010.
- The Finance Act, 2008 (with effect from 01/06/2008) mandated that no TDS (tax deduction at source) would be deducted from any interest payable on any security issued by a company, where such security is issued in dematerialized form and is listed on a recognized stock exchange in India.

#### Recent Developments in the Capital Markets Division

##### Securities Contracts (Regulation) Amendment Act, 2007

The Securities Contracts Regulation Act, 1956 has been amended to include securitization instruments under the definition of "securities" and provide for disclosure based regulation for issue of the securitized instruments and the procedure thereof. This has been done keeping in view that there is considerable potential in the securities market for the

certificates or instruments under securitization transactions. The development of the securitized debt market is critical for meeting the humungous requirements of the infrastructure sector, particularly housing sector, in the country. Replication of the securities markets framework for these instruments would facilitate trading on stock exchanges and in turn help development of the market in terms of depth and liquidity.

#### **PAN as the sole identification number**

PAN has been made the sole identification number for all transactions in securities market. This is an investor friendly measure as he does not have to maintain different identification numbers for different kinds of transactions/different segments in financial markets. Further, identification through PAN would help the authorities in enforcement action.

#### **Equity Finance for the Small and Medium Enterprises (SMEs)**

In recognition of the need for making finance available to needy small and medium enterprises, SEBI Board in its meeting held on 25th October, 2007 had agreed to the creation of a separate Exchange for the SMEs. Accordingly, in May 2008 a discussion paper was brought out on the issue. Based on the feedback received, the SEBI Board in its meeting held on 6th October, 2008 decided to encourage promotion of either dedicated exchanges and/or dedicated platforms of the existing exchanges for listing and trading of securities issued by SMEs. On November 9, 2009 SEBI Board took a decision on the operational aspects of the exchanges/ platforms of stock exchanges for small and medium enterprises. Accordingly, SEBI has permitted setting up of a Stock exchange/ a trading platform for SMEs by a recognized stock exchange having nationwide trading terminals and also issued Guidelines for market making for the specified securities listed on the SME exchange. Further, necessary amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 SEBI (Merchant Bankers) Regulations, 1992, SEBI (Foreign Institutional Investors) Regulations, 1995, SEBI (Venture Capital Funds) Regulations, 1996, SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 have also been carried out, to enable the SMEs to access the capital market. Based on the finalized regulations, applications have been received by SEBI for setting up SME Platforms.

#### **IPO grading**

SEBI has made it compulsory for companies coming out with IPO's of equity shares to get their IPO's graded by at least one credit rating agency registered with SEBI from May 1, 2007. This measure is intended to provide the investor with an informed and objective opinion expressed by a professional rating agency after analyzing factors like business and financial prospects, management quality and corporate governance practices etc. Till January 2008 45 IPO's have been graded by credit rating agencies.

#### **Permitting Indian mutual funds to invest in overseas securities**

SEBI has fixed the aggregate ceiling for overseas investments at US \$ 5 billion. Within the overall limit of US \$ 5 billion, mutual funds can make overseas investments subject to a maximum of US \$300 million per mutual fund. Further different regulations that allow individuals and Indian mutual funds to invest in overseas securities by permitting individuals to invest through Indian mutual funds has been converged.

#### **New derivative products**

Mini derivative contract on Index (Sensex and Nifty) having a minimum contract size of Rs. 1 lakh have been introduced. It has been found that globally overall market liquidity and participation generally increases with introduction of mini contracts. Since January 11, 2008 SEBI has also allowed trading on options contracts on indices and stocks with a longer life/tenure of upto five years. These contracts are expected to provide liquidity at the longer end of the market. Since January 15, 2008 SEBI has permitted introduction of volatility index on futures and options contracts. An openly available and quoted measure of market volatility in the form of an index will help market participants.

#### **Short selling**

In pursuance to budget announcement, SEBI has issued a circular on 20th December, 2007 to permit short selling by institutional investors and securities lending and borrowing to support settlement of short sales. The scheme is likely to be operationalised shortly.

#### **Investment options for Navaratna and Miniratna Public Sector Enterprises**

The Navaratna and Miniratna Public Sector Enterprises have been allowed to invest in public sector mutual funds subject to the condition that they would not invest more than 30% of the available surplus funds in equity mutual funds and the Boards of PSEs would decide the guidelines, procedures and management control systems for such investment in consultation with their administrative Ministries.

#### **Investor Protection and Education Fund (IPEF)**

SEBI has set up the Investor Protection and Education Fund (IPEF) with the purpose of investor education and related activities. SEBI has contributed a sum of Rs.10 crore toward the initial corpus of the IPEF from the SEBI General Fund. In addition following amounts will also be credited to the IPEF namely:

1. Grants and donations given to IPEF by the Central Government, State Governments or any institution approved by SEBI for the purpose of the IPEF;
2. Interest or other income received out of the investments made from the IPEF; and
3. Such other amount that SEBI may specify in the interests of the investors.

### **High powered expert committee on making Mumbai an international financial centre (HPEC on mifc)**

The report of the High Powered Expert Committee (HPEC) for developing Mumbai as an International Financial Centre (MIFC) was submitted on 10th February 2007. The report was circulated among all major Central Ministries /Departments, Chief Secretaries of State Governments, the regulators viz. RBI, PFRDA, SEBI, IRDA, and certain other non-government agencies/organizations. The report was also posted on the Ministry's website seeking public comments through a dedicated e-mail-id. The feedback received on the report was processed by the government. The steps taken in the direction of implementing the recommendations of the report inter alia include the launch of exchange traded currency and interest rate futures, setting up of an internal working group on debt management and establishing a National Treasury Management Agency, processing the report of the said internal working group, continuous interaction with various regulators and Ministries/Departments of the government in taking forward the HR and other initiatives as well as steps required to carry out proposed changes in India's regulatory and financial architecture.

### **Adr/Gdr, Fcbs**

Government had set up an Expert Committee under the Chairmanship of Mr. Saumitra Choudhury, Member Economic Advisory Council to Prime Minister to review the extant ADR / GDR / FCCB policy. The committee has recently submitted its report to the Government. The recommendations of the Committee are under consideration.

### **India's Sovereign rating**

Presently India is rated by five international credit rating agencies namely, Standard and Poor's (S&P), Moody's Investor Services, FITCH, the Japanese Credit Rating Agency (JCRA) and the Rating and Investment Information Inc., Tokyo (R&I). The current ratings by these agencies are summarized below:

Moody's upgraded their outlook last year. Moody's foreign currency rating for India is Baa3 (investment grade) with a stable outlook while Fitch's current rating is BBB- with a stable outlook.

Standard & Poor's (S&P) have also upgraded India's rating to investment grade (BBB-) with stable outlook as on 31st January, 2007.

Japan Credit Rating Agency (JCRA) has revised its ratings of Foreign Currency Long-Term Senior Debts: as well as Domestic Currency Long-term Senior Debts from "BBB" to "BBB+" (Triple 'B' Plus) with rating outlook from Positive to Stable, as on August 02, 2007. Their revision is based on their judgment that India has become stable both politically and economically.

### **Financial action task FORCE (FATF)**

India became the 34th country to join the Financial Action Task Force (FATF) as its full-fledged member. (Ref: Press release) Action Task Force (FATF) is an inter-governmental body, responsible for setting global standards on anti-money laundering (AML) and combating the financing of terrorism

(CFT). India became Observer at FATF in the year 2006. Since then, India has been working towards full-fledged Membership of FATF.

As a part of its Membership, a joint FATF / Asia Pacific Group Mutual Evaluation Team visited India in November-December, 2009 for on-site assessment of India's compliance with the 40+9 Recommendations of FATF.

Mutual Evaluation Report on India and the India's Membership issues were discussed in the third meeting of FATF Plenary-XXI held in Amsterdam, the Netherlands from 23rd to 25th June, 2010. FATF Plenary adopted the Mutual Evaluation Report on India on 24th June 2010 and on 25th June 2010 admitted India as 34th Country Member of FATF.

FATF membership is very important for India in its quest to become a major player in the International finance. It will help India to build the capacity to fight terrorism and trace terrorist money and to successfully investigate and prosecute money laundering and terrorist financing offences. India will benefit in securing a more transparent and stable financial system by ensuring that financial institutions are not vulnerable to infiltration or abuse by organized crime groups. The FATF process will also help us in co-ordination of AML/CFT efforts at the international level.

### **Working group in foreign investment in india**

With a view to rationalizing the present arrangements relating to foreign portfolio investments by Foreign Institutional Investors (FIIs)/ Non Resident Indians (NRIs) and other foreign investments like Foreign Venture Capital Investor (FVCI) and Private Equity entities etc., the Government set up a working group (Ref: Ministry of Finance's order dated 19th November, 2010) to look at various types of foreign flows, which are taking advantage of arbitrage across the respective stand-alone regulations and generate recommendations to Government. The group submitted its report to the Government on July 30th 2010. The said report has been put on the website of the Finance Ministry (<http://finmin.nic.in/reports/WGFI.pdf>) and public comments on the same are invited by October 8th October, 2010.

### **Mutual funds migrate from commission based system of remuneration to fee based system**

SEBI has stipulated that since August 2009 no entry load shall be there for any mutual fund scheme and the upfront commission to distributors will be paid by the investor directly based on his assessment of various factors including the service rendered by the distributor. In order to have parity among all classes of unit holders, SEBI has mandated that no distinction among unit holders should be made based on the amount of subscription while charging exit loads. Of the exit load charged to the investor, a maximum of one percent of the redemption proceeds shall be maintained in a separate account which can be used by the Asset Management Company to pay commissions to the distributor and to take care of other marketing and selling expenses. Any balance needs to be credited to the scheme immediately. These measures are meant to protect the interests of the investor.

### **Increase in public shareholding norms**

The Securities Contracts (Regulation) Rules 1957 provide for the requirements which have to be satisfied by companies for the purpose of getting their securities listed on any stock exchange in India. The Securities Contracts (Regulation) (Amendment) Rules, 2010 notified on June 4th 2010 provided for all listed companies to raise a minimum of 25% public shareholding. Subsequently on reconsideration it was decided to allow for a lower public shareholding (10%) for public sector enterprises (PSEs) and provide flexibility to all companies in attaining 25% (or 10% for PSEs ) public shareholding level within three years without any annual floor.

### **Applications supported by blocked AMOUNT (ASBA)**

To improve the efficiency of the issue process SEBI has introduced a new mode of payment in public issues through book building wherein an application money remains blocked in the bank account of the applicant till allotment is finalized. This was available as supplementary facility to retain individual investors for applying in public issues. In order to enable more investors to make use of ASBA process in public issues, ASBA facility has now been extended to all investors other than qualified institutional buyers.

### **Introduction of uniform margin payment for all categories of investors in public issues**

Retail individual investors and non-institutional investors were required to pay entire application money upfront while applying in public issues whereas Qualified Institutional Buyers (QIBs) could apply by paying only 10% of the application money as margin on their application. In order to provide a level playing field for retail individual investors and non-institutional investors vis-a-vis the QIBs, SEBI has mandated that from May 1, 2010 the margin collected shall be uniform across all categories of investors.

### **Strengthening the regulatory frame work governing public offerings**

In order to have a greater enforceability of the regulatory framework relating to issue of capital by companies and to streamline the disclosures while also taking into account changes in market design, the erstwhile SEBI (Disclosure and Investor Protection) guidelines (DIP Guidelines) governing public offerings were replaced by the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR). There were certain changes made in the ICDR regulations vis-a-vis the provision contained in DIP Guidelines, on account of: (a) removal of redundant provisions contained in DIP Guidelines, (b) modifications on account of change in market design and (c) bringing more clarity in the existing provisions of the DIP Guidelines.

### **Strengthening credit rating agency regulations**

A High Level Coordination Committee on Financial Markets (HLCCFM) had decided that 'the legal and policy framework for regulating the activities of credit rating agencies (CRAs) should be revisited in order to take a larger view of the entire policy with respect to banking, insurance and securities market'. Since this was a policy and multi regulatory issue, it was desired that Government should examine this issue involving all the regulators. The report was submitted to HLCCFM on December 21, 2009 and SEBI has implemented all the recommendations made by the Committee. The measures implemented include:

- Mandatory half yearly internal audit for CRAs
- Requirement of prior approval of SEBI for changes in the status or constitution of CRAs
- Enhanced transparency and disclosure requirements for CRAs.

### **Recent trends in capital market**

#### **1. New Measures of Risk Management System in Indian Capital Market**

every shareholder or investor wants to protect his investment and promote it as his source of earning. So, my always concentration is on new measures the Risk management system of SEBI which is the controller of Indian Capital Market. SEBI did several steps in this regards.

#### **{A} Measures for Reducing Price Volatility**

2. **Price volatility** is the relative rate at which the price of a security moves up and down. But this technique of profit maximization which is used by bad guys for wrong purposes. They buy shares at very cheap rates and sell when overpriced. Because, they get idea of trend of next price of shares with invalid source instead of using mathematical formula which is given below

$$\sigma_T = \sigma \sqrt{T}.$$

using a simplification of the formulas above it is possible to estimate annualized volatility based solely on approximate observations. Suppose you notice that a market price index, which has a current value near 10,000, has moved about 100 points a day, on average, for many days. This would constitute a 1% daily movement, up or down.

3. Volatility is often viewed as a negative term in the market that represents uncertainty and risk. Higher volatility brings worry to the investors as they watch the value of their portfolios move wildly and decrease in value. To reduce price volatility and stability in the prices of stock market, a major reform undertaken by SEBI was the introduction of derivatives products: Index futures, Index options, stock options and stock futures.

The volatility measured as standard deviation of daily log returns in per cent is tabulated below for pre futures and futures period.

Table 3: Daily Return Volatility (Standard deviation in per cent)

Index	Pre futures (Jan 98–Jun 00)	Futures (Jun 00–Oct 02)
S&PCNX Nifty	1.96	1.45
BSE 100	2.11	1.68
Sensex	2.03	1.54

From the above Table 3 it is clear that volatility has come down after introducing index futures contracts when compared to before the pre introduction period.

### {B} Place Circuit Breakers

This is another recent development in Indian Capital Market. We all know an excessive speculation is always risky for every investor. For reducing it, SEBI has introduced place circuit breakers.

A circuit breaker is the system which stops to trade in stock market when prices move after a specific level. For example, if a stock is at Rs. 100 and circuit breaker is fixed at 5%, then stock trading will stop if it hit of Rs. 95 or Rs. 105. There are mainly two types of circuit breakers. One is index wise circuit breakers and other is stock wise circuit breakers.

The index-based market-wide circuit breaker system applies at 3 stages of the index movement, either way viz. at 10%, 15% and 20%. These circuit breakers when triggered bring about a coordinated trading halt in all equity and equity derivative markets nationwide. The market-wide circuit breakers are triggered by movement of either the BSE Sensex or the NSE S&P CNX Nifty, whichever is breached earlier. In case of a 10% movement of either of these indices, there would be a one-hour market halt if the movement takes place before 1:00 p.m. In case the movement takes place at or after 1:00 p.m. but before 2:30 p.m. there would be trading halt for ½ hour. In case movement takes place at or after 2:30 p.m. there will be no trading halt at the 10% level and market shall continue trading. In case if the market hits 10% before 1 p.m. then as explained there would be a one hour halt in trading and after resumption of trade in case if the market hits 15% in either index, then there shall be a two-hour halt. If the 15% trigger is reached on or after 1:00p.m. but before 2:00 p.m., there shall be a one-hour halt. If the 15% trigger is reached on or after 2:00 p.m. the trading shall halt for the remaining part of the day.

### {C} Intraday Trading Limit

Intraday Trading, also known as Day Trading, is the system where you take a position on a stock and release that position before the end of that day's trading session. Thereby making a profit for yourself in that buy-sell or sell-buy exercise. All in one day.

### {D} Mark to Market Margin

MTM margin is imposed to cover loss that a member may incur, in case the transaction is closed out at a closing price different from a price at which the transaction has been entered. It is just collection in cash for all futures contracts

and adjusted against the available Liquid Network for option positions. In the case of futures Contracts MTM may be considered as Mark to Market Settlement.

### Investigations

If any company law or SEBI Act's rules regarding Indian capital market are violated, its investigation is done by SEBI. This is the list of cases resulted in compounding in the prosecution filed by SEBI (As on 30th June 2010). See PDF

### Investor Awareness Campaign

For making Indian capital market more secures for Indian and foreign investors, SEBI have started investor's awareness campaign. For this, SEBI has made his official site's sub domain at <http://investor.sebi.gov.in/> under this campaign, Workshops/ Seminars Conducted by Investor Associations recognized by SEBI. There are following things are included

### Caution to Investors

- Do not enter into securities transactions with unregistered intermediaries.
- Do not get carried away by advertisements promising unrealistic gains and windfall profits.
- Do not invest based on market rumors or unconfirmed or unauthentic news.
- Be aware that advice through television or print media does not mean that it is the opinion of the channel or publisher.

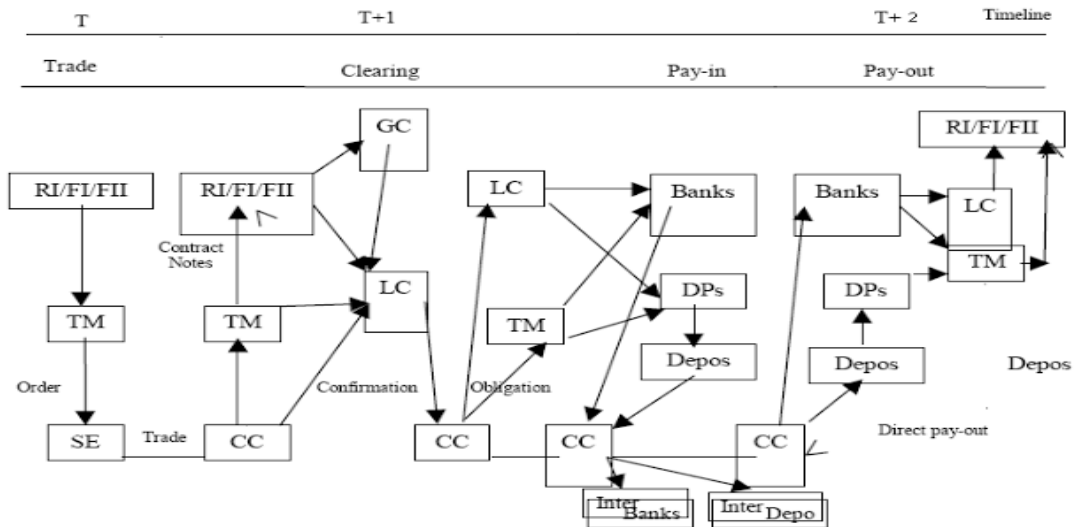
### Ban on Inside Trading

Insider trading is the trading of a corporation's stock or other securities (e.g. bonds or stock options) by individuals with potential access to non-public information about the company. In most countries, trading by corporate insiders such as officers, key employees, directors. To ban on inside trading, SEBI has made (Prohibition of Insider Trading) Regulations, 1992. Its updated amendment in 2010 says in clear words

**5. Trading Cycle under T + 2**

'T' represents the **trade** day. 'T + 2' implies the settlement on the 2th **trading** day. SEBI has reduced the settlement cycle upto T +2 and in future, it may be T + 1 settlement cycle.

But SEBI accepted shorter settlement cycles will mean more pressure on trade processing systems so that funds/securities are ready for pay-in/pay-out on the next day.



**Conclusion**

The need and roadmap for reforms has been brought out in the reports of two important Government Committees: (i) The High Powered Expert Committee on Making Mumbai an International Financial Centre (HPEC on MIFC) and (ii) The High Level Committee on Financial Sector Reforms (CFSR)'s report entitled "A hundred small steps". These reports are available at the following links respectively:

The HPEC on MIFC was convened by the Ministry of Finance. The CFSR was set up by the Planning Commission. Its report is being processed by the Ministry of Finance.

The two reports have common underlying terms of reference, viz. to recommend next generation of financial sector reforms for India. The mandate of HPEC on MIFC was to look ahead and prepare for the emergent role of Mumbai as a regional/international financial centre by reviewing the existing legal, regulatory; taxation and accounting framework related to financial services in India and recommends an enabling framework to facilitate such transformation of Mumbai.

The CFSR has, touched upon the following reasons for financial sector reforms: (i) to include more Indians in the growth process; (ii) to foster growth itself and (iii) to improve financial stability and thus protect the economy from any kind of turbulence that has affected emerging markets in the past and is affecting industrial countries today. The report of the High Powered Expert Committee (HPEC) for developing Mumbai as an International Financial Centre (IFC) was submitted on 10th February 2007. The report was circulated among all major Central Ministries /Departments, Chief Secretaries of State Governments, the regulators viz. RBI, PFRDA, SEBI, IRDA, and certain other non-government agencies/organizations. The report was also posted on the Ministry's website seeking public comments through a dedicated e-mail-id. The feedback received on the report was processed by the government. The steps taken in the direction of implementing the recommendations of the

report inter alia include the launch of exchange traded currency and interest rate futures, setting up of an internal working group on debt management and establishing a National Treasury Management Agency, processing the report of the said internal working group, continuous interaction with various regulators and Ministries/Departments of the government in taking forward the HR and other initiatives as well as steps required to carry out proposed changes in India's regulatory and financial architecture.

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