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A STUDY ON CAPITAL MARKET REFORMS IN INDIA

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Abstract

The Indian financial system's capital market is among its most crucial components. Companies can meet their needs for long-term funding on this market, which is open to them. It refers to all institutional arrangements and borrowing and lending facilities. In other words, it has to do with obtaining funds in order to make long-term investments. The supply and demand for long-term capital and claims on it are channelled through the market, which is made up of numerous people and institutions (including the government). Manufacturing businesses in the private sector, the agricultural sector, commerce, and government agencies are the main consumers of long-term capital. While the majority of the money used to finance the capital market is saved by individuals and businesses, as well as by banks, insurance companies, specialized financing firms, and governments.

The Indian financial market has matured during the past ten years. Since 1991, India's governments have made significant efforts to restructure the nation's financial system. Due to ongoing reforms, India's financial industry has grown in terms of institutions, markets, and infrastructure, adding to its depth and vibrancy. The present study deals in the developments in the capital market.

Keywords: Capital Market, Financial Reforms, Agricultural sector, Infrastructure, Industry.

Introduction

Capital market reform enables the capital markets to accept new concepts and methods having an impact on the capital market. One such capital market reform that is being used by many nations to bolster their economies is capital market liberalisation. The buying and selling of securities takes place in a capital market. This is the best location for governments and businesses to raise money. All of the countries' capital markets have experienced numerous adjustments over history. To improve the functioning of the capital market, economic theories are developed and put into practise. Evidently, the main goal of all the policies and changes was to improve the capital market of a particular country as much as feasible. Kumar, A. S. (2007).

A country's capital market can now be directly impacted by an economic or financial move in another country in real time. Today, almost every country is subject to international trade and investment. The technique is now more feasible because to the use of the internet and electronic media. With the internet, information exchange is quick and precise. The fact that this method gathers the entire planet in one location is another benefit. The capital market is one of the sectors that benefits most from internet service. Singh, R. (2010).

Reforms in Capital Market of India

1. SEBI Act, 1992

The SEBI Act of 1992 gave SEBI the power to regulate and oversee India's exchanges and brokers as well as register and approve all initial public offerings (IPOs). The Act gave SEBI the authority to regulate matters relating to capital issues, securities transfers, and other issues associated with them, as well as the ways in which companies may disclose such matters, the standards for listing securities, the procedures for transferring securities, and other related matters. SEBI published rules for stock brokers and sub-brokers, merchant bankers, and guidelines for the protection of investors from insider trading and disclosure. Through the publication of regulations in 1996 and Mutual Fund Guidelines in 1993, SEBI exerted control over mutual funds other than UTI. Throughout the subsequent ten years, SEBI published a number of rules and directives that influenced market activity. Warne, D. P. (2012).

2. Depositories Act of 1996

With the adoption of the Depositories Act in 1996, India made significant progress towards market modernization. Beneficial owners, issuers, participants, and depositories all had their rights and responsibilities outlined by this statute. All securities kept by a depository must be in fungible form and dematerialized, according to Section 9 of the legislation. The Depositories Act was crucial in transforming the market since it guaranteed the free transferability of assets with efficiency, precision, and security. The act made it possible for the market to transition from a sluggish, dangerous, paper-based settlement to electronic dematerialized securities, which removed many of the pre-existing barriers to quick and secure settlement. To implement systems like straight-through processing (STP), real-time gross settlement (RTGS), and electronic money transmission, which allowed the securities market to achieve T+2 settlement, dematerialization was the initial stage. Srivastava, A. (2010).

3. Legislation on Derivatives Trading

In order to bring derivatives within the definition of "securities," the Securities Contracts Regulation Act (SCRA) was amended in December 1999. The term "derivatives" was used to describe securities that were "(a) derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument, contract for differences, or any other form of security, and (b) a contract that derives its value from the prices, or index of prices, or underlying securities." The three decades-old Notice that forbade dealing in securities forward was revoked by the government in March 2000. Hiremath, G. S. (2014).

4. SEBI (Amendments) Act of 2001

Similar to how the 1992 market scandal forced regulatory and market reforms ten years prior, another crisis in 2001 sparked a significant regulatory and market response. In the spring of 2001, it came to light that a number of market scrips' values had been manipulated on a number of well-known exchanges using unreported funds from banks and brokers. The information rocked people's faith in the market as well as in the ability of exchanges and regulatory bodies to maintain market stability. The Joint Parliamentary Committee (JPC) that was established in April 2001 to look into the matter came to the conclusion that SEBI had to significantly strengthen its processes, vigilance, enforcement, and control mechanisms. It also suggested revising the SEBI Act to give SEBI more authority over enforcement and investigation. Yadav, S. (2017).

The SEBI Act of 2001 underwent a number of revisions in 2002 as a result of the JPC's recommendations. The most important of these modifications designated SEBI as the major regulator of the securities market, giving it the authority to conduct searches and seizures and levy serious penalties.

5. Growing Mutual Fund Industry

Mutual fund growth in India has undoubtedly aided the expansion of the stock market. Many new mutual funds have been formed by public sector banks, foreign banks, financial institutions, and joint ventures involving Indian and foreign companies. Mutual funds in India have undergone significant diversification in terms of schemes, maturity, etc. It has provided a variety of options for regular investors to access the capital market. Reddy, D. L. (2012).

6. Improving Disclosure Standards and Transparency Milestones

India's accounting standards advanced towards greater transparency and complete convergence with the assistance of issuers, SEBI, and the ICAI in order to attract foreign direct and indirect investment, as well as to appease international and institutional investors. Again, a number of significant events have occurred to recognise this movement:

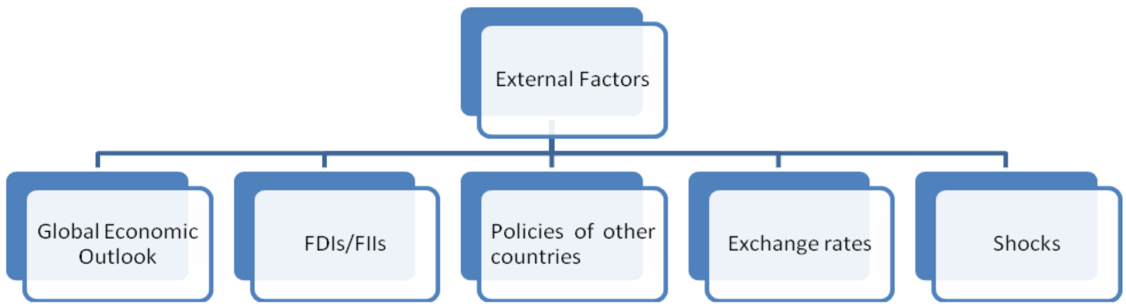
The recommendations of the Kumar Mangalam Birla Committee on Corporate Governance that India swiftly adopt international standards, with particular recommendations for presentation of consolidated financial statements, segment reporting, and disclosure of related party transactions, which were realised in 2000 through SEBI's changes to the listing agreement. Rajwani, S., & Mukherjee, J. (2013).

The amended Article 49 of the listing agreement, implemented by SEBI, complies with the recommendations of the Narayana Murthy Committee on Corporate Governance that management should provide justification for any accounting treatment that is different from that required by an accounting standard.

SEBI and the Institute of Chartered Accountants of India (ICAI) are moving in the direction of adopting the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), including the ICAI's adoption of numerous new standards since 2000 that barely deviate from IFRS. Puranam, P. (2015).

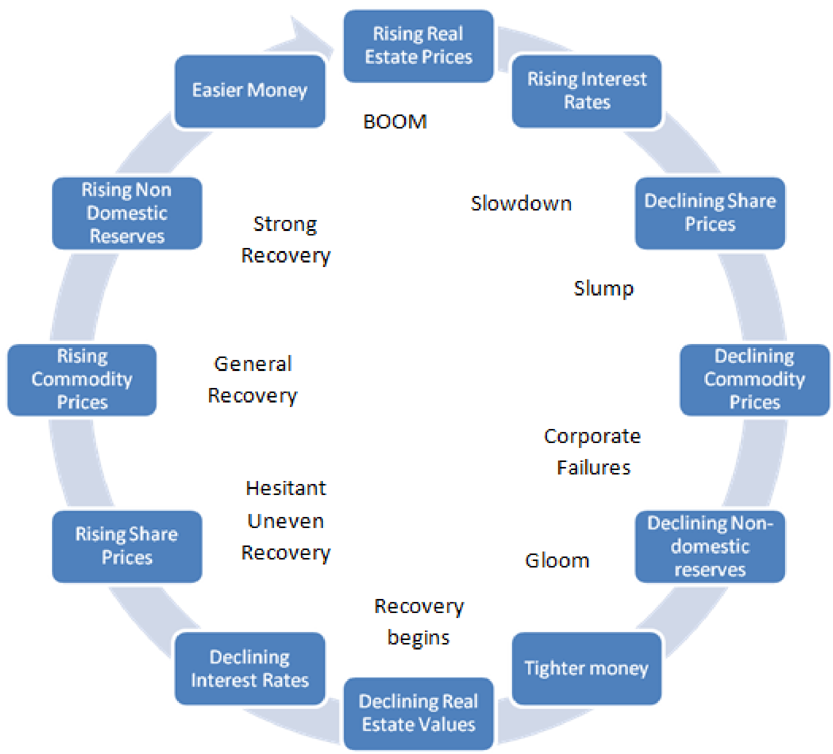
Factors driving Indian capital market

Throughout the history of the stock market, the 1990s were the most important. India learned about "liberalisation" and "globalisation." The Capital Issues (Control) Act of 1947 was revoked in May 1992. The authority to oversee new trading practises, the entry of private sector banks and mutual funds, free prices, new stock exchanges, foreign institutional investors, and market booms and busts was granted to SEBI, which was responsible for regulating the Indian capital market. The two broad categories of external and internal factors that most significantly influence the Indian equity market are illustrated below.



External Factors:

Global Economic Outlook



A medium-long term form of foreign direct investment involves participation in direct industrial operations. The investor purchases asset ownership with the intention of managing the firm's production, distribution, and other operations. International trade and knowledge transfer are made easier by FDIs. A significant economic slump in one large country has an impact on all other countries due to the current economic situation's great reliance on foreign trade and foreign investors. We recently witnessed FII/FDI withdrawal from the Indian Stock Market as a result of worries that Greece might default on its debts. A recession in one country has an effect on all the connected industries under the context of a globalised market. As an illustration, the US has the most outsourcing agreements with India. With time, even our exports to the US have grown. A "Liquidity Crisis" occurred throughout the world as a result of one US bank's failure. Gupta, R., & Guidi, F. (2012).

FDI/FIIs

Any investor or investment fund that is based in, or registered under the laws of, a nation other than the one in which it is currently making investments is considered an institutional investor. Hedge funds, insurance firms, pension funds, and mutual funds are a few of them. The expanding Indian economy has led a number of FIIs to engage in Indian equity markets.

Nonetheless, FIIs are a short-term investment and can have a causal relationship in both directions with the returns of other local financial markets, including the money, stock, and foreign exchange markets. So, for each growing country, understanding FII dynamics is crucial. The currency depreciates significantly when FIIs withdraw their funds. Rubani, M. (2017). Due to their lack of debt creation, stability, and dependence on the projects they support, FDI and FIIs are typically chosen over other sources of external financing.

Other countries Policies

The Indian equities market will undoubtedly be impacted by any decision made by other nations that influences the amount of investment that will be made in India. For instance, the Indian equities market increased when the US Senate approved the Indo-US Civil Nuclear Agreement because investors were expected to increase their investments in India. Another instance is when recent Chinese news of the Yuan's free float had an influence on crude oil as well. It initially rose but then sank as it became clear that the impact would be extremely minimal.

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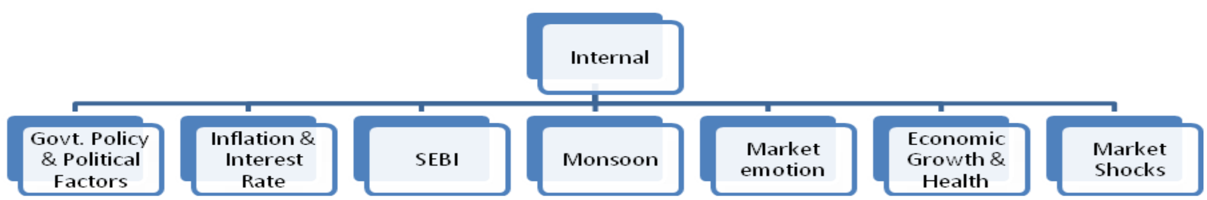
Exchange Rates

In determining the financial market, exchange rate markets' performance is equally important. The country's import prices were reduced when the Indian rupee strengthened to roughly Rs. 41 versus the US dollar, but exporters were also heavily hit, which reduced their equity. For India's exports, which were negatively impacted by the slowdown in global markets, a strong depreciation of the rupee may be beneficial; however, it is not so beneficial for those who have accrued foreign exchange payment commitments. Furthermore, the rupee's decline makes it harder for the government to control inflation. Poirson, H. K. (2007).

Shocks

Markets around the world fell after Lehmann Brothers declared bankruptcy. With the significant amount of investment made by FIIs and FDIs in Indian markets, such shocks not only damage the local market but also the market there. Similar to this, markets fell after hearing of Merrill's acquisition, AIG's bailout request, etc. Increased pressure on the government to boost domestic petrol and diesel prices results from rapid increases in the price of crude oil. If the government takes that action, the stock prices of major oil companies such as IOC, BPCL, HPCL, as well as other associated oil and gas firms such as Reliance Petrol, Essar Oil, and RNRL stocks, increase.

Internal Factors



Government Policy

The political environment and the strength of the government are two additional unrelated elements that have an impact on the movement of the stock market. Deregulation of an industrial sector will boost the stock market. The stock market's performance will likely be significantly impacted by times of war, stagflation, and unemployment, and a recession may be on the horizon for the economy.

Indian stock market repercussions from elections are profound. In some of the coalition governments that have recently taken place, the Left has participated. A cooperation with the left suggests that there won't be any significant economic reforms, which would dampen market sentiment and possibly slow FII inflows into India. Chkili, W., & Nguyen, D. K. (2014).

Inflation and Interest Rates

The RBI has a significant role to play in the government's development plan. The RBI is responsible for managing the market's interest rates and inflation rate. The greatest economic discrepancy in India's population prevents the poorest citizens from purchasing necessities, even as greater inflation rates encourage higher growth rates.

SEBI

SEBI oversees the operations of the equity market in India (Securities Exchange Board of India). The markets are subject to important rules set by SEBI. Consider this: It chooses which investors can be a part of a QIB (Qualified Institutional Buyer). Then it states that QIBs may not be, either directly or indirectly, promoters of the issuer or associated to promoters of the issuer. In addition, QIBs are not permitted to exercise veto power or the authority to designate any nomination director to the board because doing so would be seen as another form of promoter-related behaviour. SEBI therefore has a significant role to play in the Indian equity markets. Prasanna, P. K. (2013).

Monsoons

Almost 69% of jobs in India are either directly or indirectly related to agriculture. This is the main cause of India's economic growth being reliant on the monsoon season. In India, the monsoon season lasts from June till September. A healthy monsoon strengthens the nation's economy and contributes to maintaining GDP growth. Yet if the monsoon rains are even slightly delayed, as they were in 2014, by 15 days, the government starts to worry. Government limits on the export of wheat and rice can be loosened as a result of good rainfall, which will also increase the production of grains and oil seeds and lower inflation. Narayanan, B. (2015).

Less rainfall means higher agricultural product costs, which will have a significant impact on consumers. Some Indian states may experience drought as a result, forcing the government to eliminate import taxes on a variety of goods, including sugar. For the purpose of producing power and energy, it also results in a water supply shortfall. A lack of electricity has a significant impact on practically all industries, which also results in production delays or higher product costs. Less rain causes the demand for goods and services to decline and has an impact on rural communities' purchasing power. For FMCG businesses that rely on the rural and agricultural markets, this is bad news.

Market Emotion

The success of the stock market is frequently used as a gauge of the state of a nation, and having too high of expectations for it can result in bubbles that could pop at any time.

The share price is also influenced by news. People strive to put all of their money into that certain stock or market when there are good tidings regarding a certain firm or stock. This increases interest in purchasing the stock. But there are other situations in which news could potentially have a bad impact and harm the prospects of the particular stock. So, it is crucial to understand the general news of a stock or company before investing your money in order to maximise its potential for rapid growth.

Economic growth and Health

The Indian Stock Market, which is also known as the Indian Equity Market, is Asia's third-largest market after China and Hong Kong. Almost $600 billion is the market capitalisation. A tenth of the total valuation of the Asia area was represented by the market capitalization as of March 2009, which was around $598.3 billion (Rs 30.13 lakh crore).

As was already said, the changes in the securities market have had a variety of important economic repercussions. These include the effect of competition, the BSE's complete remodelling of itself to compete with the NSE, increased access to the market, including from foreign firms, producing more intense competition among securities brokers and mutual funds, entrepreneurs more easily accessing equity financing than debt financing, and greater availability of capital in the economy reflective of the increasing importance of securities markets in resource allocation The effectiveness of the equity market reforms has increased confidence in reform processes throughout the financial market, bolstering the regulator, and creating market institutions to increase competition in the sector, despite the fact that reforms in other sectors have not been as dramatic and successful as those in the equity markets. Improved competition and prudential standards in line with international norms, increased disclosure levels, and improved autonomy of public sector banks are just a few of the procedures that have been implemented in various industries. Other procedures include decreasing State involvement in the commodities markets, establishing the Insurance Regulatory and Development Authority (IRDA), and opening the sector to a competitive market structure and free market pricing in the debt market. Reddy, A. (2016).

Market shocks

The links with international markets are strengthened by recent investments in Indian exchanges as well as efforts to establish an international financial centre in India. A 5 percent share in the BSE was purchased by each of Deutsche Bank (DB) and the Singapore Stock Exchange (SGX). Three foreign investment companies, General Atlantic, Goldman Sachs, and Softbank Asi Infrastructure Fund (SAIF), along with the NYSE Group, proprietor of the NYSE, acquired a 20% share in NSE. Each of these four organisations would buy a 5% ownership from the institutions that serve as the current promoters, according to a 2007 NSE announcement. These partnerships offer the vast resources, experience, and networks of some of the world's most renowned financial market groups—groups with strong regional positions in North America, Europe, and Asia—to India's capital market. They will strengthen their global linkages, develop India's stock exchanges and capital market, and considerably improve the strategic positions of NSE and BSE. The relationship should also aid the NSE and BSE, as well as other members of their extended networks, to continuously upgrade and maintain technological superiority at a lower cost than if each had to do so independently because developing technology to run trading platforms is one of an exchange's largest expenses. India is likewise contemplating attempting to create an international financial centre.

Conclusion

Indian capital market reforms have long been required; easing the burdensome disclosure rules, improving the system for price discovery, and allowing foreign companies to operate in Indian markets will all help to boost the economy's overall growth. An active foreign company market in India is likely to draw investment from more sources, both domestic and international, and will thus be advantageous to domestic firms that are currently listed or are in the process of being listed on Indian bourses.

Significant qualitative changes were made to the Indian securities market as a result of the changes in market structure, legislation, and technology. These changes also significantly reduced systemic and settlement risks and aided in the development of more transparent, liquid, and effective securities markets. Foreign portfolio investment increased as a result of rising market efficiency and fairness expectations, as well as the 1994 removal of restrictions on foreign institutional investment.

Changes in settlement regulations and the introduction of derivatives trading significantly increased market liquidity. Equity derivative product trading was launched by the NSE in June 2000. Since then, it has grown to be the biggest exchange for trading single stock futures and currently ranks fourth internationally in terms of the volume of stock index futures contracts traded. Market liquidity has continuously increased as a result of the switch from fixed period to rolling settlements, shorter settlement times, and a sharp rise in derivatives trading. The regulator's strategy is to continually offer new items. The strategy is to give investors going ahead convenience and simplification. Also, the strategy encourages corporations to raise money domestically. Due to the fact that a substantial amount of India's capital market is concentrated in eight to ten major cities, there would be a need to expand the capital market's accessibility to rural and small markets.

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