

66. Indian Capital Market: A Global Benchmark

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The government should know that speculation is an integral part of the capital market. It has to control speculation and not remove it. If speculation is bad, then the government should understand that currency is the biggest promoter of speculation and we have to move towards a barter system.

Technological advancements and adap extended reach have catapulted Indian capital market in a different league altogether. The vast geographical network created by stock exchanges along with brokers and sub- brokers throughout India is unparalleled in the world. More than 900 members of NSE cover (as on April 2003) a total of 353 cities through a network of 2,765 VSATs and about 886 leased line connections.

Add to this the network of 213 depository data participants of National Securities other Depository Ltd (NSDL) with their branches at 1,718 locations, other members of Regional Stock Exchanges, approximately 750 members of Bombay Stock Exchange (BSE) and 122 Depository Participants of Central Depository Services Ltd (CDSL), together these cater to an investor base of more than 4 million accounts. If we also take a conservative estimate of 20 sub-brokers per broker we get more than 30,000 sub-brokers all over India.

Total capital employed by the 770 corporate members of NSE (for whom the data is available) it is more than Rs 12,603 crore as on March 2001. Add to this the employment generation through servicing of 4 million investors' DP account and broking, sub-broking offices Electronic network has provided transparency to investors with regard to price and time parity. Every investor in the country has instant access to online trading, providing him liquidity for his investments. Almost 100 per cent delivery transactions at stock exchanges are carried out electronically and are instantaneous. The infrastructure of NSDL has achieved so much success that even Finance Ministry is looking towards it for its ambitious project of creating National Tax Information Network (TIN).

In a short span, the derivatives market has achieved a turnover of Rs 4,398,548 million in the year 2003. The success of futures market in the derivatives segment has encouraged the government to open up commodities futures and provide similar trading mechanism to intermediaries involved in agricultural products, thereby bringing reforms to the commodities market.

The capital market has now become a catalyst to overdue banking sector reforms. Although Electronic Fund Transfer (EFT) or Real Time Gross Settlement (RTGS) is not in place as claimed by the RBI, the apex bank and its associates are working overtime to adapt to online networking and implement anywhere banking.

Another revolution which is taking place in the market is Straight-through-Processing (STP). It is a move to automate trade processes from initiation to execution to settlement. It involves electronically capturing and processing transactions in one pass, from the point of first "deal" to the final settlement.

Current practices involve costly multiple data -entry from paper documents and other sources that are susceptible to errors, discrepancies, delays and possible fraud. STP enables orders to be processed, confirmed the government should know that speculation is an integral part of the capital market. It has to control speculation and not remove it. Currency is the biggest promoter of speculation and we have to move towards a barter system cleared and settled electronically, in a shorter time period, more cost effectively and with fewer errors than under traditional methods such as phone, fax, email etc that require human intervention. Once this is fully implemented, the Indian capital market will have no parallel in the world.

However, there is a caveat. Technology in itself cannot contribute to the development unless it reaches the masses. This role has been effectively played by a strong force of professionally-qualified market intermediaries who are adequately capitalised, and are technically savvy with entrepreneur zeal. With the implementation of SEBI Act 1992 and recent amendments giving it vast powers, the regulatory framework is strong enough to take care of compliances and investor's protection.

With all these things in place, the market is poised to take a quantum jump only if Government takes care of the problems of the market with all its subtle aspects.

The problems being faced by the markets are enumerated below:

Over-regulation is the main problem. Of course, effective regulations are a must. However, if regulations are so rigid that its compliance becomes impractical and impossible in normal circumstances then instead of reforming the intermediary, the government will end up killing it. In the process, well-intentioned intermediaries as well as investors will prefer staying away from the system. Also, there is a multiplicity and overlap- ping of regulators like Sebi, RBI, Ministry of Finance, Stock Exchanges, and Depositories etc. Regulation is through multiple regulations like Securities Contract (regulation) Act 1956, Companies Act 1956, Income Tax Act 1961, Service Tax, Indian Stamp Act 1899, The Limitation Act 1963, The Negotiable Instruments Act 1881, Benami Transactions (prohibition) Act 1998, Indian Contract Act 1872, and Indian Penal Code.

Intermediaries have to bear high costs including establishment, infrastructure and employees cost, technological cost which include networking, equipment and software cost, cost of capitalisation and most important is the high cost of compliance and regulatory fees like Sebi fees, NSE turnover tax, stamp charges, service tax, compulsory insurance and annual membership fees. The government and the regulators have to understand that if they want investor ser- vices at a reasonable cost, they should work with the intermediaries.

Absence of banks and other modes of financing like margin trading, is leading to a shortage of liquidity to the intermediaries. Non-involvement of intermediaries in the decision-making process is another major problem. Further, the Government has not given sufficient importance to market intermediation by giving it an industry status. The plea bargaining mechanism which avoids lengthy court battles and allows early settlement of disputes is also not yet implemented.

There is absence of self regulatory organisations (SRO) which can understand the problems of the market in a better way and can give practical and effective solutions. There is no uniform Stamp Act across various states and the government has not come out with clarifications regarding digitally-signed documents.

Recently, the Company Law has proposed to levy cess under section 441 on turnover at the rate of 0.05-1 per cent, where the beneficiary is the manufacturing sector but the cost will have to be borne by the service sector also, and

that too on the basis of turnover at a rate which is higher than the commission being charged by intermediaries from their clients.

Recently, SEC chairman William Donaldson said that a regulator has to consider the proper role of market intermediaries and self-regulatory organisations, participants to ensure that their views are heard on how markets should work.

Back home, Sebi has appointed an eight- member committee of eminent economists who will file a report on the regulations of the capital market. It now hopes that the view of this committee will help design a proper framework for ensuring smooth and successful operations of the market and give Indian markets an international perspective and make it a global benchmark. It is time intermediaries are understood in the right perspective. Only then can the practical problems be solved properly.