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ISSN (Online): 2455-7838

SJIF Impact Factor (2015): 3.476

EPRA International Journal of

Research & Development (IJRD)

Volume:1, Issue:4, June 2016



Published By :
EPRA Journals

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SJIF Impact Factor: 3.476

ISSN: 2455-7838(Online)

EPRA International Journal of Research and Development (IJRD)

Volume: 1 | Issue: 4 | June | 2016

THE ROLE OF SECURITIES AND EXCHANGE BOARD OF INDIA ON SECURITIES MARKET PERFORMANCE-A STUDY IN KURNOOL DISTRICT OF ANDHRA PRADESH

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ABSTRACT

The opening up of Indian Economy in the 1990's led to series of financial sector reforms, prominently being the capital market reforms. These reforms have led to the development of the Indian equity markets to the Standards of the major global equity markets. All this started with the abolition of controller of Capital Issues and subsequent free pricing of shares. The introduction of dematerialization of shares, leading to faster and cheaper transactions and introduction of derivative products and compulsory rolling settlement have followed subsequently. Despite a series of stock market scams and crises beginning from 1992 Harshad Mehta's scam to the Keaton Parekh's 2001 scam, the Indian equity markets have transformed themselves from a broker dominated markets to a mass markets.

The introduction of online trading has given a much-needed impetus to the Indian equity markets. However, over the years, reforms in the equity markets have brought the country on par with many developed markets on several counts. Today, India boasts a variety of products, including stock futures, an instrument launched only by select markets. The introduction of rolling settlement is the latest step in the direction of overhauling the stock market. The equity market of the country will most likely be comparable with the world's most advanced secondary markets with regard to international best practices. The market moved to compulsory rolling settlement and now all settlements are executed on T+2 bases and market is gearing up for moving to T+1 settlement.

The debt markets in advanced countries are significantly larger and deeper than equity markets. But in India, the trend is just the opposite. The development of debt market in India has not been as remarkable as in the equity market. However, it has undergone considerable changes in the last few years. The debt market in India can be divided into two categories – Government securities market consisting of Central Government and State Government securities; and corporate bonds / debentures. The Government securities segment is the most dominant category in the debt market.

The Government borrows funds through the issue of long-term securities, the lowest risk category instruments in the economy. The securities are issued through auctions conducted by Reserve Bank of India, where the Apex Bank decides the coupon or discount rates based on the responses received. Most of these securities are issued as fixed interest bearing securities, through the government sometimes issues zero coupon instruments and floating rate securities. They are not generally in the form of securities but in the form of entries in Reserve Bank of India's Subsidiary General Ledger. The investors in Government securities are mainly banks, financial institutions, insurance companies, provident funds, trusts etc. The financial institutions which do not have access to retail deposits as banks have depend on bond issues for raising funds.

KEY WORDS: Development, Dematerialization, Securities, Global equity, financial institutions, Insurance Companies, Provident funds, Trusts, Floating, Stock market.

INTRODUCTION

The opening up of Indian Economy in the 1990's lead to series of financial sector reforms, prominently being the capital market reforms. These reforms have lead to the development of the Indian equity markets to the Standards of the major global equity markets. All this started with the abolition of controller of Capital Issues and subsequent free pricing of shares. The introduction of dematerialization of shares, leading to faster and cheaper transactions and introduction of derivative products and compulsory rolling settlement have followed subsequently. Despite a series of stock market scams and crises beginning from 0992 Harshad Mehta's scam to the Keaton Parekh's 2001scam, the Indian equity markets have transformed themselves from a broker dominated markets to a mass markets.

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institutions, insurance companies, provident funds, trusts etc. The financial institutions which do not have access to retail deposits as banks have depend on bond issues for raising funds.

IMPORTANCE OF SECURITIES MARKET

The utility of any capital market lies in transforming of funds from the surplus to the deficit sectors, efficiently and at low cost. The sectors, which would usually have surplus funds, are households, trusts, some corporate companies, collective investment vehicles like mutual funds, etc. The deficit sectors include corporate and Governments, who can make economic and productive use of the collected money. The existence of a securities market is for the advantage of both the issuers and the investors. For most investors, the primary motive is to earn a return on their money and to be precise, to maximize the risk-adjusted return from investments. The return comes through dividends has been rising significantly over the years. According to analysts, the reason for skipping dividends is the failure to generate enough profit for distribution to shareholders an indication of the recession in many sectors in the industry. The major source of investment in the capital market is the savings in the household sector.

DEVELOPMENT OF REGULATION TO IMPROVE MARKET EFFICIENCY

The Government of India has been trying to improve market efficiency, enhance transparency and bring the Indian securities market up to global standards. Many reform measures have been invited during 1990s. The principal ones for the formation Securities and Exchange Board of India (SEBI), repeal of the Capital Issues (Control) Act, 1947 introduction of screen-based trading, shortening of trading cycle, demutualization of stock exchange, establishment of depositories, disappearance of physical share certificates and better risk management system in stock exchanges.

The formation of SEBI was the first attempt towards integrated regulation of the securities market. SEBI regulates all market intermediaries and has the powers to impose monetary penalties for misconduct of any intermediary. One of the major stumbling blocks in fair pricing of capital issues has been the Capital Issues (Control) Act, 1947. The issuers were denied the opportunity to economically raise money from the capital market. This is now a matter of the past thanks to the repeal of the Act itself. SEBI has also issued Disclosure and investor protection guidelines to ensure fair prices for the investors, though however, many issuers during 1990s could unfairly price their capital issues at the cost of the poor common investors.

The introduction of Screen Based Trading Systems by National Stock Exchange is a major

development in the capital market. This made the markets more efficient. The geographical barriers to trade were dismantled resulting in increased trading volumes. This was possible due to the great advancements in the area of information technology. Screen Based Trading System electronically matches orders cutting down time, cost and errors, and minimizing the chances of fraud. Very long settlement cycle was another major hindrance in effecting deliveries in the equity market. Often the securities were delivered after 30 days or more due to weekly/fortnightly settlements and carry forward transactions. Another notable development in India equity market has been the introduction of depositories to dematerialize the share certificates. This avoids the physical movement of certificates, bad deliveries and quicker transfer of ownership of shares. Presently, all actively traded shares are held, traded and settled in demat form. The setting up of National Securities Clearing Corporation Ltd.,(NSCCL) IN April 1996 has been a major development in managing counterparty risks in the equity market. This has helped in increasing trading volumes since traders are now more confident about default-free settlements.

While most of the above measures have helped in reinforcing confidence in the India equity market by providing more transparent and efficient buying, selling and transfer of shares, the turnover in the secondary market has been declining.

REVIEW OF LITERATURE

Mitu Sinha and Gokala C Nath made an attempt to study – savings are linked to investments by a variety of intermediaries through a range of complex financial products called “securities”. This article makes a modest attempt to give an overview of the India Securities Market in India, focusing on the different market segments, players in the market, the market design and the regulatory framework.

Jayanth R Varma tried to analyze the financial sector of a reforms as many of the deep seated problems in the financial sector remain after a decade of reforms. The state has not relinquished in grip on the financial sector. Expect in isolated pockets, competition has not been un leashed in the financial sector on a scale sufficient to produce visible benefits in terms of efficiency, innovation and customer service. This article makes a critical review of financial sector reform in some key areas, impact that these reforms have had on the corporate sector and on retail sector: Exchange Control and Convertibility, Banking and Credit Policy, Interest rate deregulation and financial repression, Capital market, Impact on Corporate Sector and Investors Expectations. Warns of Emerging threat of monopolies – competitive duopoly to effective monopoly Episodes of market manipulation narrated.

The unfinished agenda- short sale restrictions to be removed, National Listing authority, investor protection enabling investors sue companies, enforce right for violation of SEBI regulations have also been highlighted in this article.

T.R. Venkatesh and Ms Purba Basu explain the summary of securities market in India. This article also traces the activities of central listing authority in scrutinizing the listing of stocks in the stock market and discusses the different aspects of the growth of manual fund industry in India. It concludes with a few pointers to the tasks that lie ahead particularly in the light of educating investors to cope up with market manipulation.

Binary Bhushan Chakrabarti discussed the Equity markets, by virtue of their simplicity, come well in terms of understanding, even for a common man. The question most frequently asked by crowd is about the state of the market and its course . The question relevant for the current market conditions also. These questions are answered in this article in addition to the suggestions given for the developments for improved market efficiency.

G. R. K. Murthy made an attempt to explain- The terrorist attacks in the US have accelerated the deterioration of globe economy. No country and for that matter no sector of economy is likely to escape from the slow down. Stock markets are going only in one direction and that is South wards. Regulators in their anxiety to give a boost to the sagging stock market sentiments have give their nod for Margin Trading. This, of course, turned out to be a short-lived measure for reasons galore. Amongst them, ‘regulatory ambivalence’ appears to be eternal enigma that banks find difficult to get over. And that is what this paper discussed.

Phulvinder Kaur suggested how the BSE Sensex I shedding the market capitalization measure and embracing the free float methodology. He also explained the impact of this transformation on stock market by giving examples of winners and losers.

Prasad Prusti - analyzes that the stock exchange have created wealth out of thin air for many. The stock exchanges are sources of uninterrupted flow of money for outsiders; these are of the most respected temples of wealth. Not anymore. If global exchanges are to be taken in to account, there is a tremendous pressure on the exchanges to evolve and continue to provide value-added services to the customers at no extra cost. Led by innovation in technology, a group of bargain hunting customers don't mind switching to other exchanges and often to alternate platforms of trading. This is the time for the exchanges to shift or shut down. This article suggests that a change in ownership brought in by demutualization can just be the tonic the doctor prescribes to the exchanges. This article further explains the procedure for

demutualization and the advantages of demutualization.

Nitin Mehrotra and Sudha Suswaram – Investors worldwide tend to stay away from undertaking international investments. But the fact is, by avoiding cross-country investments, investors are actually causing the rise in the risk of their portfolios. Cross-border investing develops asset classes with very low correlations to the domestic holdings, in true, contributing to a lesser volatility for investments. This promise of investment theory has led to an increasing trend of foreign institutional Investors investments across the globe. Indian being an emerging economy with a capital market at its peak, foreign investment has been a regular future here. Such investments flood in a country with sound macro- economy and aberrational procedures in place. Steps taken by India in these fronts have been commendable, but what is the key to attracting a substantial slice of the cake and how can we sustain the pace are discussed.

G.Kumaraswamy Naidu and Kamaksha Prasad Prusti – The move towards the real- time settlements of the securities transactions, the initiative of reducing the settlement cycle would prove to be not only a requirement, but also the most urgent order. The article looks the idea behind the process by SEBI regulations and how the settlement system has been shortened.

SIGNIFICANCE OF THE STUDY

The economic development of any country depends upon the existence of a well organized capital market. It is the financial system which supplies the necessary financial input for the production of goods and services which in turn promote the well being and standard of living of the people of a country. Thus, the financial system is a boarder term which brings under its fold the financial markets and the financial institutions which support the system. The responsibility of the financial system is to mobilize the savings in the form of money and monetary assets and invest them to productive ventures. An efficient functioning of the financial system facilitates the free flow of funds to more productive activities and thus promotes investment. Capital markets are part of financial system and generally speaking, there is no specific place or location to indicate a capital market. Wherever a financial transaction takes a place, it is deemed to have taken place in the capital market. Hence, capital markets are pervasive in nature since financial transactions are themselves very pervasive throughout the economic system. For instance, issue of equity shares, granting of loan by term lending institutions, deposit of money in to a bank, porches of debentures, sale of shares and so on. However, capital markets can be referred to as those centers arrangements which facilitate buying and selling of

financial assets, claim and services. Sometimes, we do find existence of a specific place or location for a capital market as in the case of stock exchange. The impact of global economic fluctuations can be clearly seen in Indian capital market. Investments in stock market are characterized by high risk and with high returns.

There will be frequent ups and downs in Indian capital market. It is presumed that the people living in urban areas are the only investors in capital market. The development in the field of information technology and the regulatory measures under taken by SEBI have brought in revolutionary changes and made capital markets available to the rural investors also. Hence, a study in the field is needed to find out the attitude of investors towards securities market and the SEBI norms.

There are only a few studies covering the issue of investor protection and role of securities and Exchange Board of India in regulating the securities market. Especially in the context of declaim in the participation of small and household investors in Kurnool District in the primary market operations, withdrawal of investors from the capital market, diversion of household savings in to other safer investment avenues, it becomes all the more important to study and analyze the investors attitude and role of Securities and Board of India in regulating securities market. Hence, there is a need for empirical study on role of Securities and Exchange Board of India on Securities Market Performance in Kurnool District of Andhra Pradesh.

OBJECTIVES OF THE STUDY

1. To analyze the history, evolution and growth of securities markets.
2. To examine the regulatory frame work of Securities Exchange Board of India.
3. To identify the attitude of intermediaries in Kurnool District towards the protection on securities market provided by the Securities and Exchange Board of India.
4. To evaluate the attitude of investors in Kurnool District towards the protection on securities market provided by the Securities and Exchange Board of India.
5. To after suitable suggestions for further improvements of securities market performance

HYPOTHESES

The hypotheses made for the purpose of study are:

- There is no significant difference between the attitude of intermediaries towards the protection and performance of securities market.
- There is no significant difference between the attitude of investors towards the

protection and performance of securities market.

SCOPE OF THE STUDY

For the purpose of the study, the researcher has chosen Kurnool District, which is a part of backward region of state of Andhra Pradesh. The stock market is a vast subject and it has many facets and the study revolves around the SEBI, intermediaries and investors.

METHODOLOGY

In order to study the topic, the data and information has been collected from primary and secondary source.

DATA COLLECTION

Primary Data: primary data has been collected through the investors of stock market and Intermediaries in Kurnool District.

Secondary Data: In order to gain insights in to the subject, the secondary data and information have been collected from various research papers/Articles Published in various magazines, Journals, Publications of Securities Exchange Board of India (SEBI), Bombay Stock Exchange, National Stock Exchange and Related websites.

LIMITATIONS OF THE STUDY

In a study of this magnitude few limitations might have been crept in.

- ✍ Few respondents may not be aware of certain procedures pertaining to stock market.
- ✍ As the time and finance are major constraints, the study has been confined to a limited area and there for, the native Kurnool District has been chosen for the study.
- ✍ The findings cannot be generalized as they are based on the respondents located in Kurnool District only.
- ✍ There might be a sense of bias crept in the information given by the respondents.

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