



STOCK EXCHANGES IN INDIA- NEED FOR A PARADIGM SHIFT IN ELECTRONIC ERA

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ABSTRACT

Stock Exchange is regarded as an essential concomitant of the capitalistic system of economy. It is indispensable for the proper functioning of corporate enterprise. It is the citadel of capital and the pivot of money market. Since 1887, various regional stock exchanges have been set up in India. However, the performance records from 1993-94 to 2003-04 show that the trading initiated by them had been gradually declining. Hence, the present paper suggests, based on their performance records, to consolidate the secondary market for securities by merging them with the leading exchanges.

KEY WORDS: *Stock Exchange, money market, liquidity, securities*

1. INTRODUCTION

Stock exchange is a market in which securities are bought and sold. It is an essential component of a developed capital market. The Securities Contracts (Regulation) Act, 1956, defines stock exchange as an association, organisation or body of individuals whether incorporated or not, established for the purpose of assisting, regulating and controlling of business in buying, selling and dealing in securities". A stock exchange, thus, by imparting marketability and liquidity to the securities, encourage investments in securities and assists corporate growth.

2. IMPORTANCE OF STOCK EXCHANGE

- It provides an organised market for transactions in shares & other securities and thereby facilitates, liquidity/marketability.
- It promotes the habit of savings and investment among general public by providing a secondary market and thereby helps capital formation.
- It ensures a measure of safety and fair dealing to protect investors' interests.

- It provides an instant valuation of securities caused by changes in the environment.
- Stock exchange is an essential concomitant of capitalistic system of economy.
- It induces companies to improve persons as the market price at the stock exchange reflex the performance.
- It promotes industrial growth and industrial investments.

3. STOCK EXCHANGES IN INDIA – HISTORY IN BRIEF

The Indian stock market is one of the oldest in Asia. The earliest records of security dealings in India are meagre and obscure. The East India company was the dominant institution in those days and business in its loan securities was transacted towards the close of the eighteenth century.

By the 1830's business in corporate stocks and shares in bank and cotton presses took place in Bombay (Now Mumbai). Though the trading list was broader in 1839, there were only half a dozen brokers recognised by banks and merchant.

In 1860-61, the American Civil War broke out and cotton supply from the United States of



America (USA) and Europe was stopped. This resulted in the 'sharemania' for cotton trading in India. The number of brokers increased to 250. However, at the end of the American Civil War, in 1865, a disastrous slump began. The share prices plummeted. At the same time, brokers found a place in Dalal Street, Bombay, where they could conveniently assemble and transact business. In 1887, they formally established the 'Native Share and Stock Brokers' Association'. In 1895, the Association acquired premises in the same street. It was inaugurated in 1899 as the Bombay Stock

Exchange (BSE). In November 1992 National Stock Exchange of India Limited (NSE) was set up, promoted by leading financial institutions at the behest of the Government of India. In 1990, the Over the Counter Exchange of India (OTCEI) was incorporated with an aim to aid enterprising promoter in raising finance for new projects in a cost effective manner. Following this, the various regional exchanges were also set up.

The number of regional exchange in each of the four zones – east, west, north and south - is shown in table 1.1.

Table 1.1.Regional Stock Exchange

North Zone	East Zone	West Zone	South Zone
Kanpur	Bhubaneswar	Ahmedabad	Bangalore
Ludhiana	Kolkatha	Vadodara	Chennai
New Delhi	Guwahati	Indore	Kochi
Jaipur		Bombay	Coimbatore
		Pune	Hyderabad
		Rajkot	Mangalore

Source: SEBI Bulletins.

As of 2003-04, there are 23 stock exchange in India. They are;

1. Ahmedabad Stock Exchange Association
2. Bangalore Stock Exchange
3. Bhubaneswar Stock Exchange
4. Calcutta Stock Exchange
5. Cochin Stock Exchange Ltd.
6. Coimbatore Stock Exchange
7. Delhi Stock Exchange Association
8. Guwahati Stock Exchange Ltd.
9. Hyderabad Stock Exchange Ltd.
10. Inter-connected Stock Exchange
11. Ludhiana Stock Exchange Association
13. Madras Stock Exchange
14. Madhyapradesh Stock Exchange Ltd.
15. Manglore Stock Exchange
16. Mumbai Stock Exchange
17. Pune Stock Exchange
18. Uttarpradesh Stock Exchange Ltd.
19. OTCEI
20. Meerut Stock Exchange Ltd.
21. National Stock Exchange Ltd.
22. Saurashtra Kutch Stock Exchange Ltd.
23. Vadodara Stock Exchange Ltd.

Stock Exchange are governed by the Securities Controls (Regulation) Act, 1956. Securities and Exchange Board of India (SEBI) monitors their working.

4. NEED FOR CONSOLIDATION: FINDINGS, SUGGESTIONS

Until the introduction of electronic trading, it was necessary to have various regional stock exchanges covering all parts of the country. They followed their own rules. They provided access to deal in securities. However, in the electronic era, the concept of regional exchange are no longer relevant. Online trading and depository services offer better quality and convenient services for the investors from any part of the country. In addition, the regional stock exchanges have been displaying a dismal performance over the period 1992-93 to 2003-04 as depicted in table 1.2.(See Appendix)

The table 1.2. (See Appendix) shows the turnover recorded on cash segments of exchanges in India from the year 1992-93 to 2003-04. It shows that the turnover on cash segments of all the

regional exchanges have reduced substantially. Turnover of stock exchange in Bangalore, Bhubaneswar, Cochin, Coimbatore, Guuhati, Jaipur, Ludhiana, Madhya Pradesh, Magadh, Mangalore, Pune & Vaodara have plummeted to zero by the year 2003-2004; other regional exchange also have been recording falling turnover. The table shows that the Uttarpradesh stock exchange, which recorded the largest turnover among the regional exchanges amounted only to 1.1% of the turnover of NSE, Mumbai.

Table 1.3 (See Appendix) shows the quantity of shares traded and delivered and their value. It shows that regional exchanges in India deals only nominal portion of share trading & delivery in India. No regional exchange deals more than 5% of the total. Among them, the trading has been substantially reduced. For instance, Calcutta Stock Exchange which traded 19548 lakhs shares in 2001-02, which was 3.9% of the total trading in India, recorded only 0.39% trading in 2003-2004. The results show that there are stock exchanges which deal virtually insignificant trading in their bourses.



5. CONCLUSION

In earlier centuries India had a few reasons (such as widely scattered investors, regional differences etc.) for setting up of regional stock exchanges in various parts of the country. However, after the launching of electronic trading and depository services, they make it totally irrelevant to have regional exchanges. Investors from any part of the country can very well access the NSE/BSE from anywhere, even from the remotest village. Technological advancement also enables to have transparent, hasslefree and convenient mode of trading and settlement. Unlike paper form based trading, in screen based trading the price at which trade was executed and settled can very well be known to the investors. Hence, it is suggested that the regional exchange should be merged with the NSE / BSE. They may operate like a depository participant (DP) and trading member in NSE/BSE. Necessary legal amendments should be made for the purpose. Such a consolidation will indeed add strength to the efficiency of Indian capital market.

In the electronic era, the depository system has redefined the way of dealing in share market. Hence the conventional stock exchanges have no significant role to play. Having NSE and BSE as the central exchanges are well competent to lead share trading in India, other Stock Exchanges may either be closed down or merge with the big ones. Indeed such a consolidation will help the regulator too for carrying out its functions.

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**APPENDIX****Table 1.2. Distribution of Turnover on Cash Segments of Exchanges****(Rs. Crores)**

Stock Exchange	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Ahmedabad	22183	23540	12452	20626	41065	31117	29928	37566	54036	14644	15459	4544
Bangalore	730	2316	712	897	4389	8637	7749	1115	600	70	0	0
Bhubaneswar	1899	814	303	211	231	203	74	68	0	0	0	0
Calcutta	NA	57641	52822	62149	105481	178779	172818	357167	355035	27075	6523	1928
Cochin	65	382	614	287	152	164	96	66	26	2	0	0
Coimbatore	27	2082	3192	5007	4798	4274	769	78	0	0	0	0
Delhi	7413	12099	9144	10083	48992	67936	50651	94528	82997	5526	11	3
Gauhati	443	452	285	616	484	120	52	0	0	0	0	0
Hyderabad	676	984	1160	1107	480	1868	1270	1236	978	41	5	2
ICSE	NA	NA	NA	NA	NA	NA	NA	274	237	70	53	0
Jaipur	296	616	879	1048	1519	453	63	2	0	0	0	0
Ludhiana	1050	3150	4975	4849	5274	8316	6070	6872	9184	964	0	0
Madhyapradesh	356	132	118	202	5	1	1	10	2	1	0	0
Madras	3407	4618	6117	3259	3912	2458	739	500	218	48	76	101
Magadh(Patna)	NA	1938	797	1629	2755	323	1	9	2	0	0	0
Mangalore	12	108	62	39	380	314	11	0	0	0	0	0
Mumbai	49696	84536	67749	50064	124190	207112	310750	686428	1000032	307292	314073	503053
NSE	NA	NA	1805	67287	295403	370193	414474	839052	1339510	513167	617989	1099534
OTCEI	2	38	365	224	219	283	198	3603	126	4	0	16
Pune	782	3459	3672	7096	10084	8624	4827	6090	6171	1171	0	0
SKSE	265	614	329	452	395	17	0	0	0	0	0	0
Uttarpradesh	5508	6789	7923	12373	16070	15209	18429	23876	25112	13349	14767	11751
Vadodara	1681	3751	3855	2519	4344	4577	1749	159	2	20	3	0

NA : Not Available,

Source: Various Exchanges

**Table 1.3. Trading Statistics on Stock Exchanges**

Stock Exchanges	Shares Traded (Lakh)			Shares Delivered (Lakh)			Value of Shares Delivered (Rs.crore)		
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
Ahmedabad	7622 (1.5)	7239 (1.20)	2514 (0.23)	373(0.3)	115(0.10)	115(0.04)	435(0.04)	99	0
BSE	182196 (36.1)	221403 (3.64)	388748 (34.84)	57668 (46.9)	71131 (46.00)	144531 (45.09)	59980 (36.20)	50308 (36.95)	129312 (36.95)
Bangalore	35 (0.01)	0.0 (0.00)	3 (0.00)	8 (0.01)	0.0 (0.00)	3 (0.00)	20 (0.00)	0.0 (0.00)	0.5
Bhubabeswar	0	NA	0	0	0	0	0	0	0
Calcutta	19548 (3.9)	6837 (1.10)	4378 (0.39)	2062 (1.7)	904 (0.60)	1225 (0.60)	1810 (0.30)	400 (0.08)	266
Cochin	29	0	0	0.8	0	0	2	0	0
Coimbatore	0	0	0	0	0	0	0	0	0
Delhi	6811 (1.4)	34 (0.01)	0.03 (0.00)	3127 (2.5)	22 (0.00)	0.03 (0.00)	1872 (0.00)	2 (0.00)	0.14
Gauhati	0.13 (0.0)	0.21 (0.0)	0	0.13	0.05	0	0.03	0.21	0
Hyderabad	143 (0.03)	37 (0.01)	17 (0.00)	82 (0.07)	14 (0.01)	17 (0.01)	8 (0.00)	2 (0.00)	2
ICSE	123 (0.02)	30 (0.01)	0.06 (0.00)	0.65 (0.00)	0.1 (0.00)	10 (0.00)	0.1 (0.00)	0.1 (0.00)	0.03
Jaipur	0	0	0	0	0	0	0	0	0
Ludhiana	765 (2.0)	0 (0.1)	0	74	0	0	53	0	0
Madras	52(0.01)	0(0.1)	85(0.004)	5(0.00)	0(0.00)	0.96	2.19	0	0.19
Magadh	0 (0.00)	0.11(0.00)	0.19	0	0	0	0	0	0
Mangalore	0	0	0	0	0	0	0	0	0
MPSE	11 (0.0)	0	0	0.70	0	0	0.9	0	0
NSE	278409 (55.2)	364066 (59.8)	713301 (48.2)	82353 (53.20)	174538 (55.460)	71765 (63.46)	71765 (63.30)	87956 (62.95)	220341 (62.6)
OTCEI	5.41 (0.001)	1.8 (0.00)	22.21 (0.00)	0.07 (0.0)	0	0	0.03	0	0
Pune	396 (0.1)	0.5(0.01)	0.00	16	0.03	Nil	34	0.01	Nil
SKSE	0	0	0	-	0	Nil	0	0	Nil
UPSE	7997 (1.6)	9288 (1.50)	6737 (0.60)	202 (0.2)	235 (0.20)	74 (0.02)	232 (0.20)	230 (0.02)	76
Vadodaa	7.0 (001)	8 (0.00)	0 (0.00)	0	0	Nil	0	0	Nil
Total	5,04,149	60,89,44	11,15,807	1,22,917	1,54,775	3,20,504	1,36,225	1,38,997	3,49,997

Figures in parentheses indicate percentage to total

Source: various Stock Exchange