Reforms in the Capital Market:

The 1991- 92 securities scam prompted the government to increase the pace of reforms in the capital market. Several reforms measures have been undertaken since then in both the primary and secondary segments of the equity market:

The Primary Capital Market:

1. The Securities and Exchange Board of India (SEBI) was set up in early 1988 as a non-statutory body under an administrative arrangement. It was given statutory powers in January 1992 through the enactment of the SEBI Act, 1992 for regulating the securities market. The two objectives mandated in the SEBI Act are investor protection and orderly development of the capital market.
2. The Capital Issues (Control) Act, 1947 was repealed in May, 1992, allowing issuers of securities raise capital from the market without requiring consent of any authority. Restrictions on rights and bonus issues were also removed. The interest rate on debentures was freed. However, the new issue of capital has now been brought under the SEBI's purview.
3. The infrastructure of the primary capital market has been fairly diversified over the years with the setting up of a large number of merchant bankers, investment and consulting agencies and registrars to the issue.
4. The primary capital market has widened and deepened with the public sectors banks, financial institutions and public sectors enterprises in the infrastructure and power sectors increasing raising resources from the market both by way of debt and equity.
5. The requirement to issue shares at a par value of Rs.10 and Rs.100 was withdrawn. This gave the companies the freedom to determine a fixed value per share. This facility is available to companies which have dematerialized their shares. Moreover, the shares cannot be issued in the decimal of a rupee.
6. Improved disclosure standards, prudential norms and simplified issue procedures have been prescribed. Companies are required to disclose all material facts, specific risk factors associated with their projects while launching public issues and give justification for pricing on their prospectus.
7. To reduce the cost of the issue, underwriting by the issuer was made optional, subject to the condition that if an issue was not underwritten and in case it failed to secure 90 per cent of the amount offered to the public, the entire amount so collected would be refunded.
8. One of the significant steps towards integrating the Indian capital market with the international capital markets was the permission given to foreign institutional investors such as mutual funds, pension funds to operate in the Indian market. Foreign institutional investors were initially allowed to invest only in equity shares; later, they were allowed to invest in the debt market, including government securities. The ceiling for investment by foreign institutional investors was increased from 40 per cent to 49 per cent in 2000-01.
9. Indian companies have also been allowed to raise capital from the international capital markets through issues of Global Depository Receipts, American Depository Receipts, Foreign Currency Convertible bonds (FCCBs) and External Commercial Borrowings (ECBs). Companies were permitted to invest all ADR/GDR proceeds abroad.
10. Merchant bankers are prohibited from carrying on fund-based activities other than those related exclusively to the capital market. Multiple categories of merchant bankers have been abolished and there is only one entity, the merchant banker.
11. Besides merchant bankers, various other intermediaries such as mutual funds, portfolio managers, registrars to an issue, share transfer agents, underwriters, debenture trustees, bankers to an issue, custodians of securities, venture capital funds and issues have also been brought under the purview of the SEBI.
12. For public/rights issues of debt instruments, credit rating from one credit rating agency would be sufficient now which had to be done from at least two agencies before. This was done to reduce the cost of issuance of debt instruments.
13. PAN has been made mandatory in all public and rights issues irrespective of the application amount excepting Sikkim.

The Secondary Capital Market:

1. The open outcry trading system, prevalent till 1995 was replaced by on-line screen-based electronic trading. In all, 23 stock exchanges have approximately 8,000 trading terminals spread all over the country.
2. Three new stock exchanges at the national level were set up in the 1990s. These were, the Over the Counter Exchange of India (1992), the National Stock Exchange of India (1994) and the Inter-connected Stock Exchange of India (1999).
3. Trading and settlement cycles were uniformly trimmed. With effect from December 31st, 2001, all scrips have come under rolling settlement. The settlement cycle for all securities was shortened from T+5 to T+3, with effect from April 1, 2002.
4. To enhance the level of investor protection, the process of dematerialization of securities through the depository system and their transfer through electronic book entry is pursued vigorously. To enable this, the National Security Depository Limited was set up in November, 1996 and the Central Depository Service Limited in February, 1999. All actively traded securities are held, traded and settled in demat form.
5. Issuing companies are required to make continuing disclosures under the listing agreement. All listed companies are required to furnish to Stock Exchanges and also publish unaudited financial results on a quarterly basis. Disclosure of material information, which may have a bearing on the performance/operations of a company, is also required to be made available to the public.
6. One of the most significant reforms in the secondary market is the measure to improve corporate governance. Corporate governance is a set of system and processes designed to protect the interest of stakeholders. It is about commitment to values, ethical business conduct and a high degree of transparency. It is about creating and enhancing shareholder wealth while protecting the interests of all other stakeholders.
7. Stock Exchanges have also undergone some major structural reforms. The boards of various stock exchanges have been made broad-based so that they represent different interests and not just the interests of their members. Stock Exchanges, brokers and sub-brokers have been brought under the regulatory purview of the SEBI.
8. Companies are allowed to buy back their own shares for capital restructuring, subject to the condition that the buyback does not exceed 25 per cent of the paid-up capital and free reserves of the concerned company. This buy back has been allowed to improve liquidity and enhance wealth of the shareholders.
9. The insider trading regulations have been formulated prohibiting insider trading and making it a criminal offence, punishable in accordance with the provisions under the SEBI Act, 1992.
10. Since June 2000, trading of futures has begun. Both the NSE and the BSE have created proper facilities for derivatives trading, including conducting of regular training programs for the same. The Securities Contracts(Regulation) Act, 1956 has been amended for introduction of options trading.
11. It is mandatory for listed companies to announce quarterly results. This enables investors to keep a close track of the scrips in their portfolios. The declaration of quarterly results is in line with the practice prevailing in the stock markets in developed countries.
12. The central government has notified the establishment of the Investor Education and Protection Fund (IEPF) with effect from October 1, 2001. The IEPF will be utilized for the promotion of awareness amongst investors and protection of their interests.