Recent Developments in Capital Markets

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The Reform Story

• Institutions
  – Empowered regulator
  – New exchanges
  – Modern clearing & settlement systems

• Products
  – Equities
  – Derivatives
  – Debt
## REFORMS IN SECURITIES MARKETS

<table>
<thead>
<tr>
<th>Features</th>
<th>1991</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regulator</strong></td>
<td>No specific regulator, but GOI oversight</td>
<td>Securities and Exchange Board of India</td>
</tr>
<tr>
<td><strong>Form of Securities</strong></td>
<td>Physical</td>
<td>Dematerialised</td>
</tr>
<tr>
<td><strong>Regulatory Approach</strong></td>
<td>Merit based regulation</td>
<td>Disclosure based regulation</td>
</tr>
<tr>
<td><strong>Access to Market</strong></td>
<td>Granted by the Central Government</td>
<td>Eligible issuers access the market after complying with the issue requirements</td>
</tr>
<tr>
<td><strong>Disclosure</strong></td>
<td>Voluntary, vague, scanty and non-standardised</td>
<td>Standardised, systematic and at par with the international standards.</td>
</tr>
<tr>
<td><strong>Pricing of Securities</strong></td>
<td>Standardised by the CCI</td>
<td>Determined by market</td>
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REFORMS IN SECURITIES MARKETS contd..

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<thead>
<tr>
<th>Feature</th>
<th>1991</th>
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<tbody>
<tr>
<td>Exchange Structure</td>
<td>Mutual, not-for-profit exchanges- fragmented</td>
<td>For profit, corporate, demutualised exchanges</td>
</tr>
<tr>
<td>Trading Mechanism</td>
<td>Open outcry</td>
<td>Screen based trading system</td>
</tr>
<tr>
<td>Settlement Cycle</td>
<td>14-days account period settlement, not adhered to always</td>
<td>Rolling settlement on T+2 basis</td>
</tr>
<tr>
<td>Risk Management</td>
<td>No focus on risk management</td>
<td>Comprehensive risk management system</td>
</tr>
<tr>
<td>Derivatives Trading</td>
<td>Absent</td>
<td>Wide array of exchange traded derivatives such as futures and options on indices and select securities and currencies, ETFs</td>
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</tbody>
</table>
RECENT DEVELOPMENTS

• Amendments to the Securities laws
  – to strengthen SEBI & to give it greater investigation powers
  – to provide for legal framework for trading of securitized instruments
• PAN as the sole identification number
• Short selling and securities lending and borrowing scheme
• Unified exchange traded market for corporate bonds
• Simpler and quicker procedures for registration and operation by Foreign Institutional Investors
• Simplification of issue process
  – ASBA, e-filing, compressing timelines
Emerging Themes

• Regulation
  – Unified Vs Multiple
  – Principles Vs Rules
  – Coordination & convergence
  – Autonomy & accountability
  – Capacity, Capture and SRO Models
  – For profit exchanges and conflicts of interest

*Rush Vs harmonic approach to new architecture*

• Governance- ethics, law and management
  – For whom the company toils?

<table>
<thead>
<tr>
<th>Promoters / Management</th>
<th>Shells</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers/ shareholders/ company itself</td>
<td>Enterprises</td>
</tr>
<tr>
<td>Stakeholders / society</td>
<td>Institutions</td>
</tr>
</tbody>
</table>
Emerging Themes....

• Role of Gatekeepers- CRAs, Auditors…
  – Conflict of interest
  – Valuation and accounting related issues
  From institutions to shells ?

• Products
  – Over – innovation ?
  – OTC Vs Exchange trade
  – Missing markets
  – financial literacy/ capability
THANK YOU