Chapter-7

Problems and Prospects of Capital Market
This particular chapter deals with some of the challenges facing the capital markets in India, the problems faced by BSE, the impact of liberalization on BSE and on its resource mobilization, and concluding remarks or comments of the study, which are adequately addressed to realize the vision of an efficient market system.

Subdued Primary & Secondary Equity Market:

In the Primary equity a major challenge currently is the revival of the depressed conditions of the market. The sluggishness of the primary equity market which is continuing for over years is attributed to various factors including investors apathy which is mainly due to poor performance of a large number of scrips floated with a high premia during 1993-95 following of freeing Prices. The matter was compounded by irregularities noticed in the pricing of some of the issues, which imparted considerable negative influence in the minds of the investors. Further, there was a liquidity constraint in the financial System during 1995-96 and large part of 1996-97, which led spurt in interest rates diverting investor's preference from Equity to Debt issues in the primary market.

The continued subdued nature of the primary equity market has become an area of major concern today as it is hampering implementation of many industrial projects causing time and cost overruns and thereby affecting the industrial growth of the country.

In the primary equity market a happy development has been the successful issues of several banking industry shares, which have received good investor response despite most of the issues being premium issues. This underscores the need for the introducing
quality issues by the corporate sector. What is lacking is the confidence on the part of good corporate entities to test the markets.

The secondary equity market has also remained subdued over the past years, although it has shown revival trends, confined to a few select scrips. In a way revival of primary equity market depends crucially on the health of the secondary market. Policy reform in the secondary market has been quite comprehensive so far as creation of efficient and transparent infrastructure is concerned.

Post trading facilities have improved considerably with the setting up of National Securities Depository Ltd. (NSDL). Other exchanges have also now computerised their operations; settlement cycles are being rigidly followed. There is also a gradual shift towards demat form of trading. Secondary markets have come to be dominated by the FIIs. The recent event in South East Asia has to some extent affected their sentiments. Though it could be said the barring for a few months, there was always net inflow FIIs investment. What is required is to make the Indian FI's Participate to a much larger extent than they are doing today UTI and other mutual funds as well as LIC have to be much more active on the secondary markets.¹

Another major challenge facing Indian Capital market is creation of secondary market in debt instruments particularly in corporate debt. The growth of long-term corporate debt market is an essential requirement as private corporate sector in India has been assigned a prime role in development of infrastructure and other projects. In India, corporate sector accesses debt mainly by way of term loans from financial institutions. However with the reforms in the capital market, role of securities assets is likely to acquire
considerable importance in future. There is a large agenda for development of corporate debt market in India comparable to international standards. To activate long-term corporate debt market in India, there is a need for further liberalization in use of contractual savings like pension, provident fund and insurance, which provide large source of long-term funds in the economy. Also, there is an urgent need for market making in corporate debt on the lines of Government securities. A distributive network of brokers and sub-brokers does not exist for debt instruments as it does in the equity segment. As a result although a part of household savings is channelised into long-term debt, it is largely in non-marketable forms. Debt securitisation has also to develop for which changes in the stamp Act and Contracts Act need to be made.

Prior to globalisation of Indian economy, the Stock markets were somewhat insulated from international influence. This is not the case any more. The recent S. E. Asian Crisis has shown that due to high degree of integration or linkage among financial markets, the crisis can be quickly transmitted to other financial markets. India came out rather unscathed and did not experience the trauma faced by other countries. Partly it was due to the fact that full CAC (Capital Account Convertibility) has not been adopted and partly because Indian Regulatory mechanism turned out to be far more effective than in other countries. In a global integrated economy, it is imperative to take steps to regulate the markets effectively so as to retain investor confidence in a countries economy and particularly the stock market.

The reforms in the economic system have imparted a new dimension to capital markets in India. While liberalization in capital market has resulted in many improvements in functioning
of the stock markets, there are several aspects, which still need merit attention so that capital market can play a meaningful role in industrial and economic developments. The sluggish trends in primary equity markets needs to be reversed by restoring investor's confidence in the market. Secondary market trading needs to be broad based and various intermediaries both in primary and secondary market should be strengthened to conform to international standards. Development of long term Debt market, particularly corporate debt market is an essential pre-requisite particularly for financing of infrastructure and other industrial projects. Regulatory and other aspects need to be looked in the recent South East Asian crisis needs to be carefully studied.

The corporate debt market segment is yet to see the emergence of full service brokerage firms. Market making in corporate debt by intermediaries is conspicuously absent. The investor base is narrow and largely confined to banks, state monopolies in insurance and mutual funds as also small financial business firms. But these investors have large portfolios of Government securities and loans rather than tradable corporate debt. Reduction in transaction costs and stamp duties, would subsequently reduced the cost of trading in corporate debt and hence increase their liquidity.

Management of pension funds offers new opportunities for business expansion for asset management companies. At present, the size of provident funds and pension funds In India is relatively low at about 12 percent of GDP compared to 67 percent in the US, 55 percent in UK and 39 percent in Australia. As the coverage of provident funds and pension funds increases, this percentage in bound to increase. ²
Savings for retirement essentially seek long-term growth. For long-term growth, investment in equity is desirable. This has been amply demonstrated by the investment experience of pension funds in development countries like USA, UK, Japan, Canada and Germany, where percentage investment by pension funds in shares and mutual funds has been in the range of 42 percent (in case of Japan) to 71 percent (in case of USA). In USA, Pension funds alone held more than 22 percent of corporate equity in 1995. Coming to Asian examples, the Government pension funds in South Korea, Philippines and Malaysia have also significant investment in equities, ranging from 9 percent to 11 percent. In India, a beginning can be made by allowing pension funds to invest in equity funds, managed by mutual funds.

After the initial enthusiasm in the first three after liberalisation, the Indian capital market exhibited a marked slowdown since financial year 1996. This change can be attributed to various factors including over supply of scrips political uncertainty, change in international sentiment towards emerging markets following the Mexican crisis and relative illiquidity of the GDR market overseas. One of the reasons for this is that in the three years immediately following the opening up of the Indian economy in 1991, there were unprecedented enthusiasm by foreign investors to invest in India and many Indian companies with weak credentials exploited their eagerness with overpriced issues.

Till date no Indian company has successfully made a public offerings of ADRs (American Depository Receipt) in the US markets, although a quite a few are in the pipeline. An international equity offering through ADRs requires to be registered with the SEC (Securities and Exchange Commission, USA) in U.S. For SEC registration, issuers are required to
reconcile its account to US GAAP, which is time consuming. Once registered with SEC, ADRs can be listed in US stock Exchange. The exchange provides better liquidity compared to other exchanges.

Post liberalization with the opening up of the Indian economy, the maturing of the Indian capital market and improved disclosure standards adopted by India companies, one can well except continued international investor interest in India.

For Healthy long-term development of the primary Market and to ensure continuing participation by the small investors, here's a few point agenda.

* Listing Norms:

The compulsion to list on multiple Stock Exchanges under the Companies Act should be removed. The “Z” category listing introduced by the Stock Exchange, Mumbai is a highly innovative alternative to delisting.

* Remove of Restriction of 25% Public Holding:

One of the conditions for listing is that at least 25% of equity should be sold to public. This condition has lost its relevance particularly in case of bigger companies. World over, listing requirements normally have certain minimum number of shares to be sold to public and minimum market capitalization of shares. On similar lines listing agreement may be amended.

* PSU Divestment:

At least 10% of PSU shares should be divested in favor of retail investors to infuse interest in the capital market. This will not only help in widening the capital market but would also help proper price discovery for shares of such PSUs.
* Public Shareholding in Multinationals:

In many cases, foreign companies listed in their own countries are allowed to hold 100% equity stake in their Indian ventures established by them in India. If the concern is to have absolute control on management a maximum of 76% of holding could be allowed.

The balance 24% may be sold to public so that the retail investors could participate in the growth and wealth created by these foreign companies. If it is not possible for these companies to make a public issue at the time of establishing their undertakings here, a maximum period of two years could be allowed to them, to either disinvest 24% of their holdings or to raise new capital so that at least 24% of the new capital is in the hands of Indian public.

* IPO Criteria:

Like the controller of capital Issues (CCIs) regulations in the past, the current SEBI criteria for initial public offerings to displays a historical approach, which does no take into account the future potential, promise or performance. Hence there is a school of thought that advocates replacing SEBI's highly centralized "yes-no" decision on IPOs with either exercise of an investor's own judgment or by specific record of performance.

* New Issue Pricing:

Auctions and book building need to be seriously looked at as means of determining pricing of new issues. These would not only result in market oriented and realistic prices but would also help bring down the cost of raising funds. Under book building the issuer's manager receives bids stating interest at a certain price. If the bids fail to elicit the minimum expected price, the issue is cancelled.
* Punish Vanished Companies:

A staggering 84% out of a total 3911 equity issue floated between April 1992 and March 1996 rising over Rs. 25,000 crore from retail investors are not quoted, listed or quoted far below the offer price. Not just the investor's funds, but their confidence as well has vanished. Until promoters of such companies are taken to task and made answerable for their misdeeds no amount of pre-announcements are going to either deter future offenders or assure potential investors. 4

The Stock Exchange Mumbai has introduced the concept of 'Z' category scrips. All companies not complying with the listing norms or not responding to investors grievances have been put in the 'Z' category so the investors are caution against investing in such companies.

*Monitoring Utilisation of Issue Funds:

In future, special attention should be given to the utilization of issue funds. These have been grossly misused in the past, including diversion to activities other than those stated in the prospectus.

The company's lead bank or financial institution could probably do the monitoring. Every company should be required to submit a quarterly status report on fund utilization to the stock exchange where they are listed and to SEBI, while annual report should carry a detailed disclosure for the investors benefit, duty certified by the statutory authority.

*Market Making:

It must be mandatory for a company coming out with a public issue for the first time to provide market making in its shares at
least until such time they are regularly traded and quoted on the Stock Exchanges. Companies whose securities are not regularly traded should be obligated to appoint market makers to provide two-way quotes on a continued basis.

And for healthy long-term development and growth of secondary market here’s a few point agenda.

# Investments by Banks:
Investment by banks in equity market should be accorded a priority status in the same manner as accorded to Agriculture, Exports and Small-scale industries. It is a well established fact that investments in equities gives higher returns than debt and it would, therefore, be in the interest of the banks to invest in equities, specially in the present environment of low inflation and low interest rates. Banks, Financial institutions, FIIs and mutual funds should be allowed to participate in carry –forward system as vyaj Badla Financers that provides competitive returns.

# Investments by LIC:
The investible fund of Life Insurance Corporation are around Rs. 130000 crore, of which currently only around 5% (Rs. 7000 crore) is invested in equities. Worldwide life insurance companies invest between 10% and 50% in equities. 5

LIC should earmark at least 15% of its investible funds for the equity market. This will also result in higher bonus to policyholders and lower premium rates, assuming the returns in equity investments are higher than debt. LIC may also be asked to make public information about returns on different categories of investments.
# Investments by GIC:

GIC and its subsidiaries presently have a corpus of about Rs. 20,000 crores, of which only about 15% (Rs. 3000 crores) is invested in equities.

Worldwide equity investments by General Insurance Corporations are anywhere between 30% and 50%. Therefore there is a need for reconsideration to the proportion of investment by GIC.

# Provident Fund (PF) Deployment:

At present PFs are not allowed to be invested in equities whereas in other countries substantial portion of these funds is invested in the equity market. Employees should be given the option of investing at least 20% of their PF in the equity market through approved Mutual Funds aided by appropriate tax incentives.

# Investments by Pension Funds:

At least 5% of the retirement funds should be routed to the equity through Mutual funds. This will ensure sufficient exposure of this repository of funds to the capital market and provide them with an opportunity to earn above average returns.

# Promote Government Securities Business:

At present trading in Government securities is restricted amongst banks, institutions and selected intermediaries. The Stock Exchanges can provide greater liquidity, reach and depth and give investors access to this avenue of relatively lower risk investment.

# Investor Protection:

The following changes are proposal to be brought about in Company law:
• Registrar is an externally important intermediary in the capital market. The level of their service causes either great investor comfort or discomfort; delays in transfer being a case in point. Professionalisation of registrars in a welcome development but their services need to be streamlined and subjected to time bound regulation within suitable penalties to discourage deals and defaults. Transfer of shares should be made compulsory within 21 days. Penalty should be imposed on the company in case of delay of transfer.

• If a company does not pay divided / interest in time, there should be penal interest at the rate of 2% per month payable by the company.

• Separate benches at high Courts, District Courts and Civil Courts be established to hear the complaints of the investors and any case filled in these courts should be disposed off within a maximum period of Six months.

• If the company does not attend to investor’s complaints consistently over a period of six months or more, filing a winding up petition against the company should be permitted.

MACRO – ECONOMIC MEASURES:

* Foreign Direct Investment (FDI).

FDI increases the availability of investible funds and tends to reduce their cost. These also stimulate growth and free domestic capital for alternative investment. FDI needs to be encouraged both in the primary and secondary segments, with clear and easy guidelines.
* Corporate Governance (Independent Directors).

At least a third of the directors of any Company above a certain size should be non-executive, independent directors, one way of ensuring their independence would be for credit rating agencies, industry organizations and chambers to make and circulate list of prominent personalities – layers, accountants, financers, bankers, economics, who have the competence and the integrity to be independent directors. If independent directors were to contribute conscientiously to the management process, they would have to be well compensated. The limit of Rs. 2000. On sitting fees in the present companies Act should be removed. Further, every large company should have an audit committee, on which independent directors should have a majority. Amongst other things, it should approve the annual report, ensure compliance with all financial disclosure requirements and certify that funds rose from outside were used for the designated purpose.

* Accounting Standards:

Accounting standards in India should reflect international Practices. Accounts should report, amongst other things, profitability by business segment, earnings as they would be diluted by expected increases in equity, foreign exchange losses, monthly volume of production of main products and services and economic value added (the difference between the return earned and the cost of capital at a market rate of return).

Stock Exchanges’ Powers:

The powers of stock exchange are limited and hence they are unable to deal effectively with companies, promoters and registries. SEBI should frame stronger rules on disclosure and levy non-discretionary, deterrent fines for infractions. One is an event
that may have significance for the investors; these must be revealed immediately to the press and the stock exchanges and posted on companies Internet site. The other is financial information the most important carrier of which is the annual report with audited accounts. SEBI should ensure that it is prepared and dispatched to all investors in time.

Disclosures should be made simultaneously to SEBI, the stock exchanges and the press. Stringent time limits should be set, and SEBI should visit failures to make the disclosures in time with fines that are high enough to act as a deterrent. SEBI and Stock Exchanges should be given broader powers to punish companies for non-disclosure delayed disclosure or inaccurate disclosure.

**Emerging Trends in the Capital Market:**

The State of the capital markets today has been widely discussed and debated and the anxiety with respect to reviving and revitalizing the markets is certainly understandable. However we should not aim to go back to the markets of the years 1992-93 to 1993-94, for that was a phase where every issue, irrespective of fundamentals, was oversubscribed; that was a market, which fail to distinguish between quality and mediocrity. In fact the kind of market that we need today and should aim today, and should aim at should satisfy the following condition.

- Issuers are genuine with a proven track record or with a backing from a reputed financial Institution / Bank.
- Issues are priced reasonably.
- Issuers are reasonable about their projections and future profitability.
• Issuers are made accountable for utilization of issue proceeds.

• Investors are fully informed.

Needless to add, there is no denying the fact that corporate governance has assumed a pivoted role and corporate need to be accountable for the moneys raised from the public.

**Market Regulations:**

Some of SEBI’s regulations and announcements are loosely worded. Some rules of the stock exchange are not readily available and this lacuna can confuse and misguide people.

A sub-broker is however, a controversial issue in the Indian capital markets. The issue is two fold.

i. The majority of the sub-brokers are not registered with SEBI; and

ii. The function of sub-brokers is not meaningful defined.

No sub-broker is supposed to buy, sell or deal in securities, unless he or she holds a certificate granted by the SEBI. Nevertheless, the reality that there were only about 2593 sub-brokers registered with SEBI as at the end of June 1997, while the number of stock brokers in India was estimated in the range of 50000 to 200000.

**Listing and Registration:**

Listing refers to the procedure for admission to trading on stock Exchange. Registration refers to the submission of certain financial and business information. This is in contract to the position in India where registration is required with SEBI and no financial and business information is required to be submitted to SEBI.
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Review of Operations of Stock Exchange:


The major areas of concern identified are lack of liquidity, infrastructure facilities, inefficient trading system, an outdated settlement system, and lack of a single market. Lack of liquidity arises according to report because markets do not have depth and breadth and no market has been developed for debentures. Trading system has lack of transparency of transactions affecting adversely investor’s confidence.

India’s Millennium move.

Few years back, without computerisation, the ring system was hardly transparent enough for the institutional investors to take to it. Settlement periods were longer. There was no depository. Institutions had to compulsory deal in physical paper, which meant delay in transfer and massive problems of bad delivery of shares. This system penalized the buyers for no fault of his own. Often, after the payment for purchase of shares, the buyer had to wait for months for delivery with a clear title. Naturally this problem alone prevented the FIIs from foraying into the Indian Stock markets.

Today the cash markets are much better than they were in the 1996. However one area where system development has not taken place is in the banking sector. The banking sector has been slow in technological compliance which could true to be a stumbling block in the introduction of further derivative products.

Currency, electronic transfer of funds is not possible in India, which cramps liquidity and thus volumes. To synergies with the rest of the world, it is imperative to start transferring funds electronically. Starting derivatives would only highlight the need
for transfer of funds. Slowly but steadily, India is definitely moving ahead to get aligned with the world market.

**Problem and Survival Strategies for the Stock Exchanges**

- The top 5 exchanges in India account for 95% of the total Stock market turnover in India.
- The OTC Exchange of India, India's first one with a national spread does barely Rs. 1 crore of trades a day.
- Of the countries 24 Stock Exchanges, half do not trade almost 90% of their listed scrips.
- The Country has over 9000-registered brokers and 4000 Sub-brokers, over a third of them are inactive.
- Two Stock exchanges – Rajkot and Patna, have not done a Single trade in 1998-99. Patna was superseded by SEBI in 1997.

India's regional stock markets are up against an existential dilemma to die not to die. The ones that are dying are refusing to acknowledge the reality. The ones that at least seems alive, are harboring the illusion that THEY NEED NOT DIE YET. The ones that are thriving are behaving like they have a permanent franchise behind protective Sebi barriers that say no Stock Exchange can expand in areas served by another without a specific by your leave from the latter. But the week exchanges refuse to give up. It does not take a genius to foretell that a majority must wind up and ask brokers to merge and take up memberships with the larger bourses. But thanks to Sebi's protective arm, many are happy to keep their identities even if their terminals have developed cobwebs around them.
Need for further reforms for improving Liquidity in Debt Markets:

- Currently each state imposes a stamp duty on transfer of debentures. The rates of stamp duty differ from State-to-State and rates are as high as 5% in some states. This hinders active trading and market making debentures. Stamp duties on transfer of debentures should be removed and these instruments should be dematerialized.

- There is a need for the introduction of market makers. To do this, market intermediaries should also be allowed to access credit at cheaper rates. In India access to credit by intermediaries is limited and costs are high. There are also limits on the volume of business an intermediary can do with a bank/mutual fund. These artificial limits should be removed, as this would increase competition and service standards in the industry.

- Existing Participants like Nationalized banks should be encouraged to actively trade in securities.

- Blanket permission needs to be given to Public Trusts to invest in highly rated paper. Presently they need to take approvals on a case basis.

- Stamp duty on instruments should be rationalized.

A Growing number of MNC's are moving out of the Indian Stock Markets.

Here’s what the trend means for capital markets and investors. It’s a Quit India movement of a different sort. On March 13, 2002 Reckitt Benckiser Plc – Makers of Dettol and many other consumer products – decided to bid goodbye to the Indian Stock
Markets. Which means it's delisting from Stock Exchanges. Then it was Cadbury Schweppes Plc mopping up shares owned by Indian investors. In the past three years, 31 companies have announced plans to move out of the Indian stock market and do business as wholly owned subsidiaries of their parent. With each passing years, the number of foreign companies seeking delisting is rising and according to Prithvi Heldea, managing director of Prime database, another 90 Foreign companies are planning to delist.

Many of these companies never wanted to get listed in the first price. In the 1970's the government forced foreign companies to dilute their shareholdings and get public if they wanted to continue business in the country. Consequently a large number of foreign companies were listed on the Indian Stock Exchanges not because they needed Indian capital, but because they were forced into doing so. The aim is to integrate the Indian arm into the parent so that technology and brands can flow freely. And since the companies are not listed the promoters neither have to comply with stock market disclosure norms nor are accountable to shareholders for the investment they make. 10

Revitalizing BSE: A Tough task

Even the BSE may die a slow death since his predecessor D.R. Mehta failed for reasons best known to him, to put a structure in place after the BSE - elected directors were divested of their roles as directors. The BSE is literally languishing way behind the National Stock Exchange because of this, apart from the scams that ravaged and eroded its credibility in the eyes of the retail investor. The gap between the BSE and NSE, which was
only 9 percent when the directors were unseated, is today 23 percent in terms of market share.

As for the derivatives segment, though the BSE was the first to start derivatives trading it recorded a measly Rs. 10 Crore trading daily against Rs. 300 Crore of the NSE. This is only because there is no leadership nor persons of vision at the helm of affairs at the BSE. Many of the appointments made by the earlier ruling dispensation were allegedly done on the grounds other than merit. So the exchange just muddles along with the public directors ruling the root and some people calling the shots from behind the scenes. The BSE and NSE are the only really viable exchanges as there are hardly any volumes on other exchanges.

The Finance Minister, in his Budget 2002-03 said, “Demutualization and corporisation of the exchanges are expected to be completed during the course of the year to implement the decision to separate ownership, management and operation of the Stock Exchanges”. The crux of the issue is to reduce the influence of the brokers by keeping them away from the exchange so that they don’t interfere with the day-to-day working of the exchange and misuse their position to get sensitive information from the surveillance department.  

For this, the finance minister and SEBI in the interim can first see that there should be no elections for the directorship on the board. SEBI can prepare a panel, which will nominate the members. This will eliminate politics from the elections and brokers will not interfere with the management. The plush offices on the BSE’s 26th floor occupied earlier by the president and vice-President should be dismantled as there is no need for
brokers to be sitting in the administrative area more important is for SEBI to put a strong man, who will not be dictated to, at the head of the exchange.

Demutulisation is going to be a contentions issue. 20 of the 23 exchanges are companies where the brokers are shareholders. When exchanges are to be demutualised they will have to be compensated. Then will come valuations and complications. Presently the majority of brokers are worried about their asset value. Brokers occupy eight floors in the BSE Towers.

**A free market is essential for a truly global economy:**

After September 11 attacks when everyone went to town suggesting that the world economy was sure to go to pieces, the Stock markets were the only economic indicator that predicated a turnaround. And less than three months after that signal, economics confirmed that a turnaround was indeed on its way. And thankfully policy makers like the US Fed were paying heed to signals from the market to draw up pragmatic economic policies.

A similar pragmatism is required in India too. The decision makers should unshackle the markets from unproductive controls. This does not mean that we should not have surveillance. It only means that punitive action against culprits should be taken quickly so that the entire country does not suffer. The ill effects of the irresponsible behavior by various arms of government can be seen with the result that Indian markets are now among the worst performing markets in Asia, even worse than Pakistan. FIIs, which once used to pour money into India, have almost completely avoided Indian shores this year. And if the government does not address issues
bothering international and domestic investors quickly India could miss the bus once again.

The issues are simple. All investigations must be concluded quickly. Those found guilty should be punished. Protracted investigations and various kinds of raids should not be used as tools for settling scores. A free market is an essential prerequisite for a truly global economy.

**Recovery Road Map (as designed by SEBI)**

Sebi's plan to restore investor confidence: The first step is investor education. Investors should be clearly told about the methods of investing in the markets; the risk, returns and trade-offs associated with investing in stocks. They need to understand the functioning of the stock markets, depositories and grievance redressal mechanisms. Sebi is in talk with the authorities to introduce the basics of investments in higher secondary curriculum and graduation courses as well. The second step is information dissemination. Sebi has already taken measure to ensure that corporates disseminate real time information and to disclose information in easily understanding language. The third step is corporate governance. Every listed corporation in India stock exchanges and all market intermediaries will be asked to follow corporate governance norms. Every conceivable form of corporate information, which has a bearing on the Stock Prices, Should be shared with investors. And this has to be done on a real-time basis.  

Stock market have registered enormous growth, maturity and sophistication various scams, irregularities too have kept pace with it. The secondary market policy as far as stock exchanges are concerned should have the objective of the promotion of a
stable market reflecting the growth of economy and the fundamentals of the company, whose shares are traded on the exchanges. Indian stock markets do not seem to reflect them. Once the flows into the market are properly regulated and accounted, the stock markets would reflect fundamentals. Supervision by SEBI would be effective if monitoring systems are in place in respect of each subject or activity being supervised, such as stock brokers and sub-brokers operations, regulation of trade by stock exchanges, acquisition and take over activity and insider trading. Foolproof systems should be set up to capture all transactions of brokers into a central database maintained by the exchange. If the regulatory body and the stock exchange remain cautious various irregularities scams etc. can be averted.
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