Key Developments in Indian Capital Market

Capital Market has a crucial significance to formation of Capital for a Country. The capital market plays an important role mobilising saving and channelising the same for productive investments for the overall growth of the Individual and for the economic growth of the country as a whole. In order to boost the economic growth, the Government at regular intervals keeps coming out with certain measures related to working structure of the "Capital Market" in the country to encourage new age investors to invest in the markets for healthy returns, to enhance transparency in the system to uphold Investor Confidence and Digitalising the methodologies of Investment & Trading . A healthy capital market narrates the growth story of the Country's economy. Read on to have an overview and analysis of certain key developments in Indian Capital Market…

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The various amendments / developments in the "Capital Market" of the Country are changing the face of India's economy from "**Developing" to "Developed One**" and most significantly helping it to be in sync with the world economy. The various vital developments in the Indian Capital Market are as follows:

1) Increased Focus on Transparency and Corporate Governance

Through the introduction of SEBI (Listing Obligation & Disclosure Requirements) Regulations 2015, there has been an increased focus on the transparency and corporate governance by forming uniform policies for necessary disclosure & approval for all the Listed Companies in the country. The regulations are very much in line with requirements of the Companies Act, 2013, and as a result, there is an ease for the Companies to follow a single pattern of regulations.

2) Insider Trading Regulation for Listed Companies

The smooth operation of the securities market and its healthy growth and development depends to a large extent on the eminence and reliability of the Market. Insider trading leads to loss of confidence of investors in securities market as they believe that the markets are rigged and only those who have inside information get benefit and make profits from their investments. Thus,

in order to curb such insider trading practices, Securities & Exchange Board of India at regular intervals come out with alterations and new suggestions in the SEBI (Prohibition of Insider Trading Regulations) 2015.

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3) Online Trading in Capital Market

Some of the leading stock markets in India have introduced computer system for their trading activities. The computer terminals will enable the public and the brokers to know the price prevailing in the market at any time. This prevents speculation activities.

4) Mandatory Demat of Shares

With the latest introduction of Mandatory requirement for Dematerialising the shares of Listed Company in case of Physical Transfer of Shares is one of the most vital stipulations enforced to the transfer of shares of the Listed entity. Every transaction in the market is not only recorded but it brings revenue to the Government in the form of registration and stamp charges. Blank transfers will not be possible and short term speculation in shares cannot be done. Every share purchased or sold will have to go for registration and hence bogus or benami share transfer is now not possible.

5) Elevation of Mutual Funds

The Promotion of Mutual Funds by both Nationalised as well as Non-Nationalised Banks has led to improved growth in Capital Markets. There is a rising influence of Mutual Funds investors in India as the Investors in India believe in diversifying the risk appetite by investing in mutual funds rather than directly in the Primary Market.

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6) Liberalisation of Foreign Direct Investments

Government has liberalised the norms of Foreign Direct Investment in various Sectors, reforming the norms of Direct Investment to pool resources in the country with hassle-free approval requirements and documentations.

7) SME Market Development

To facilitate start-ups in various sectors, the regulator has cleared amendment to Institutional Trading Platform ("ITP") framework beginning with the change of its name to 'Innovators Growth Platform'. The key proposal for ITP framework includes that 25% of the pre-issue capital should have been held by QIB/AI, reduce the minimum application size from ₹ 10 Lakh to ₹ 2 Lakh, reducing the time period from three years to one year for the company listed on the startup platform to the main board of the stock exchange and ₹ 10 crore minimum offer size. The initiative would help to list new age companies in sectors like e-commerce, data analytics, bio-technology and other startups.

8) Deepening Bond Market

To deepen the corporate bonds market, SEBI proposed framework that will require a large corporate to raise 25% borrowings through this route. Inability to meet the criteria will require providing an explanation for such shortfall to the stock exchanges in a prescribed manner. Such firms need to have an outstanding

long-term borrowing of at least ₹ 100 crore; a credit rating of AA and above and target to finance themselves with long-term borrowings (above 1 year).

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9) Tightening of Rule for Credit Rating Agencies

A series of difficulties continue to plague India's bond markets which had been brought to light after IL&FS crisis. Investment decisions are based on the credit rating assigned by the various rating agencies. Recently, agencies remained unable to detect discrepancies in companies like IL&FS, Dewan Housing and Reliance Communication. This led to sudden downgrades, which, in turn, required funds to sell off their holdings of the bonds that were downgraded. In the wake of this, SEBI tightened the regulations for credit rating agencies, asking them to formulate a uniform benchmark, under which they will be required to reveal "probability of default" for each of their instruments in advance.

Recommendations

- Development of financial markets cannot be complete without robust regulatory environment attempting to keep pace with innovation in the market. This can be achieved through increasing the equity cult, making IDRs more attractive and by allowing free cross-border movements of currencies with minimum government intervention.
- Penetration of retail investors in the financial markets can be enhanced through investor education and regulatory body can play a vital role in this initiative as well to enhance equity cult.
- As India is one of the fastest growing economies, IDRs could be a crucial step for integrating Indian capital market with overseas market. One way of making IDRs more attractive is by having a concessional tax regime for listed securities.
- Free global capital flows bring better and more efficient allocation of global pool of savings to more productive ones. Government must maintain sound macro-economic position for the better management of CAC which in turn can boost global capital inflow to fastest growing economy.
- Government must abolish the long term capital gain tax (LTCG) and budget proposal of high tax surcharge on super rich as well as on FPIs.
- Liberalised Remittance Scheme (LRS), which enhanced to $250,000 per person in 2015, can be further relaxed amid stability in foreign exchange market.
- Resident Indian/HUFs should be allowed to open dollar a/c within the LRS limit and Indian banks must be allowed to open dollar a/c for Indian/HUFs. This will help to retain foreign exchange within the broad economy.
- Indian residents should be allowed deal with these overseas brokers and depositories for making investments in various stocks and bonds etc. listed on various global exchanges such as NYSE, NASDAQ among others.

The Committee on Global Financial System (CGFS) had made few suggestions for Capital Market working, which are as below:

- Promoting greater Market economy
- Strengthening legal and judicial system for investor protection
- Enhancing regulatory independence and effectiveness
- Increasing the depth and diversity of the domestic institutional investor base
- Opening up Capital Market internationally in a bi-directional manner
- Developing complementary markets for derivatives, repo transaction and securing lending. ■

It is our attitude at the beginning of a difficult task which, more than anything else, will affect it's successful outcome. - William James