



“बेटी बचाओ, बेटी पढ़ाओ”

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Need for Reforms

- Indian capital market reforms have long been overdue; liberalization of onerous disclosure requirements, improved price discovery mechanisms, and entry of foreign companies into Indian markets would provide the **necessary boost to the economy's overall growth**.
- An active market for foreign companies in India is likely to **attract investment** from a broader range of sources, both domestic and foreign, and will thus **benefit domestic companies** that are already listed or are in the process of being listed on Indian bourses.
- Increased participation from global institutional investors also ensures **increased liquidity and market reputation**, resulting in higher valuations for companies listed on Indian exchanges.

- Furthermore, such reforms would have ancillary benefits such as **job creation** in India's financial cities and exposure to **global best practices**.

Reforms in Capital Market in India

The following are the major reforms implemented in India's capital market:

Establishment of SEBI

- The **Securities and Exchange Board of India (SEBI)** was established in **1988**. It was granted **legal status in 1992**.
- SEBI was established primarily to regulate the activities of **merchant banks**, to control the **operations of mutual funds**, to act as a **promoter** of stock exchange activities, and to act as a **regulatory authority** of new issue activities of various companies.
- **The SEBI was established with the primary goal of "protecting the interests of investors in the securities market and for matters connected with or incidental thereto."**

Establishment of Creditors Rating Agencies

- Three **creditors rating agencies** have been set up, namely, **The Credit Rating Information Services of India Limited (CRISIL - 1988)**, the **Investment Information and Credit Rating Agency of India Limited (ICRA - 1991)**, and **Credit Analysis and Research Limited (CARE)**.
- They were established to **assess the financial health** of various financial institutions and stock market-related agencies.
- It also serves as a guide for investors in assessing the risk of their investments.

Increased Merchant Banking Activities

- In recent years, many Indian and foreign commercial banks have established **merchant banking divisions**.
- **These divisions offer financial services such as underwriting, organising issues, and consulting.**
- It has proven to be beneficial to factors related to the capital market.

Indian Economy's Honest Performance

- The Indian economy has been growing at a rapid pace in recent years. It has attracted a significant amount of **Foreign Institutional Investment (FII)**.
- In recent times, the massive entry of FIIs into the Indian capital market has resulted in a positive appreciation for Indian investors.
- Similarly, many new companies are emerging on the Indian capital market's horizon to raise capital for their expansions.

Rising Electronic Transactions

- As a result of **technological advancements** in recent years, the physical transaction with regards to the amount of paperwork is reduced.
- **Paperless transactions** are now increasing at an alarming rate. It saves investors money, time, and energy.
- As a result, it has made investing more secure and convenient, encouraging more people to participate in the capital market.

Growing Mutual Fund Industry

- The **expansion of mutual funds** in India has undoubtedly aided the growth of the capital market.
- Many new funds have been launched by public sector banks, foreign banks, financial institutions, and joint mutual funds between Indian and foreign firms.

- Mutual funds in India have undergone significant diversification in terms of schemes, maturity, and so on.
- It has made it easier for ordinary investors to enter the capital market.

Growing Stock Exchanges

- Initially, the **BSE** was the primary exchange, but with the establishment of the **NSE** and the **OTCEI**, stock exchanges have spread throughout the country.
- A new interconnected stock exchange in India has recently joined the existing stock exchanges.

Investor Protection

- In 2001, the Central Government of India established the **Investors Education and Protection Fund (IEPF)** under the aegis of the SEBI.
- It is effective in **educating and guiding investors**. It tries to protect the interests of small investors from capital market frauds and malpractices.

Increase in Derivative Transactions

- The NSE has allowed **derivatives trading** in equities since June 2000. It also introduced **futures and options transactions** in November 2001.
- These innovative products have increased the variety of investment options, resulting in the expansion of the capital market.

Insurance Sector Reforms

- The Indian insurance sector has undergone massive reforms in recent years.
- In the year **2000**, the **Insurance Regulatory and Development Authority (IRDA)** was established.
- It paved the way for private insurance companies to enter India.

- It has grown in size as more insurance companies invest their money in the capital market.

Commodity Trading

- In addition to the trading of ordinary securities, **commodity trading** has recently been encouraged.
- The **Multi Commodity Exchange (MCX)** has been established.
- The volume of such transactions is rapidly increasing.

Conclusion

The ability of a country to develop a good capital market is determined by the availability of savings, the proper organisation of its constituent units, and the entrepreneurial qualities of its people. The capital market is the mechanism that directs these savings into investment or productive use. The capital market distributes resources among alternative uses. It is necessary as it bridges the gap between those who save a portion of their income and those who want to invest it in productive assets.

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