VISIONIAS
INSPIRING INNOVATION

WEEKLY FOCUS #86

CAPITAL MARKET IN INDIA

CHANNELLING FINANCE FOR GROWTH

INTRODUCTION

Our world is more complex and interconnected than ever before. Consequently, the modern global financial markets are now a complex structure made up of elements that no longer work in silos. Capital markets all over the world have witnessed growing integration within as well as across boundaries, spurred by deregulation, globalization, and advances in information technology.

After two years of a global pandemic, and countless other geopolitical occurrences, the Indian capital market has continued to stay resilient in the face of global macroeconomic instability. However, even the strongest of capital markets cannot remain unscathed forever. In this context, we need to first understand what is meant by the capital market. What role does the capital market play in promoting and sustaining the growth of an economy? What are the factors responsible for the growth of the capital market in India? What are the possible deficiencies in the Indian capital market? What more can be done to sustain the growth in India's Capital market?

WHAT IS MEANT BY THE CAPITAL MARKET?

Financial markets across the world **allow savings and investments to be channeled** between suppliers, people, or institutions with capital to lend or invest and those who seek capital. This is done through trade in financial assets such as bonds, shares, international currencies, and derivatives.

Capital markets are part of the financial markets where **buyers and sellers can engage in the trade of long-term financial instruments.** Long-term here means for a period greater than one year.

The overriding goal of the institutions that enter into the capital markets is to raise money for their long-term purposes, which usually comes down to expanding their businesses and increasing their revenues.

FINANCIAL INSTRUMENTS TRADED IN THE CAPITAL MARKET

EQUITIES
Equities are the share in the ownership of the company.

DEBT SECURITIES
Instruments issued by the government or companies to raise funds.

DERIVATIVES
These are the instruments that derive their value from an underlying asset(s).

MUTUAL FUNDS
It is an instrument that collects money from a number of investors and invests the money in various assets.

EXCHANGE-TRADED FUNDS (ETFS)
In ETFs, financial resources of multiple investors are pooled and is later used to buy capital market instruments.

The capital market generally comprises two segments-

- **The primary markets,** also known as the new issues market, deals with new securities being issued for the first time and
- **The secondary markets,** also known as the stock market or stock exchange, for the purchase and sale of existing securities.

CAPITAL MARKET STRUCTURE IN INDIA

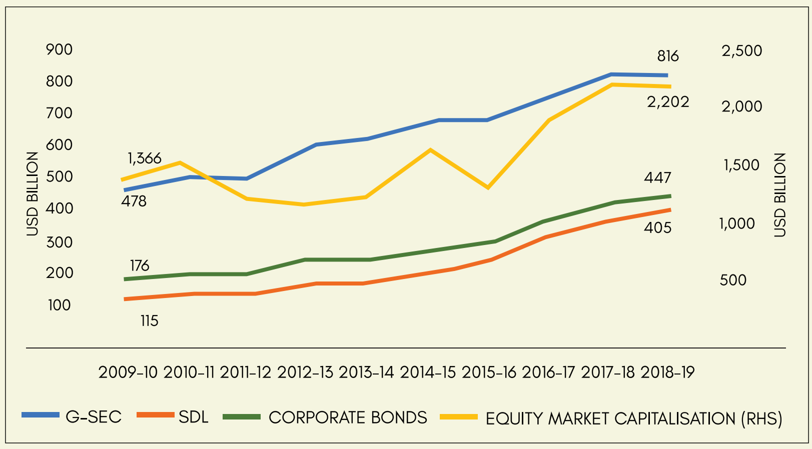
- **GOVERNMENT SECURITIES** (Debt instruments issued by a government like treasury bills and bonds etc.)
- **INDUSTRIAL SECURITIES MARKET** (Market for shares and bonds of the companies)
  - **NEW ISSUES MARKET** (For new securities such as Initial Public Offering (IPO))
  - **OLD ISSUES MARKET (STOCK EXCHANGE)**
- **DEVELOPMENT FINANCIAL INSTITUTIONS (DFIs)** (Specialised development banks or subsidiaries set up to support private sector development)
  - **All India Financial Institution (AIFI)**- National Bank for Financing Infrastructure and Development (NaBFID), EXIM Bank, NABARD, NHB and SIDB
  - Other institutions IFCI Ltd., IDBI, etc.
- **FINANCIAL INTERMERDRARIES**
  - **MERCHANT BANK**
  - **MUTUAL FUNDS**
  - **LEASING COMPANIES**
  - **VENTURE CAPITAL COMPANIES**
  - **OTHER FINANCIAL ORGANISATION**

STATUS OF INDIA'S CAPITAL MARKET

Indian capital markets have a history of more than a century. However, they remained largely inactive till the 1970s. Today, segments of India's capital markets are comparable with counterparts in many of the advanced economies in terms of efficiency, tradability, resilience, and stability. **This can be observed by the following trends-**

- **Consistent growth:** In terms of size, all the major segments of the capital market, viz., the Central Government securities (G-Sec) market, the market for State Development Loans (SDL), the corporate bond market, and the equity market have experienced consistent growth during the past few decades.
- **Resilient market:** India's capital market withstood several periods of stress, notably the **Asian financial crisis in 1997-98, the global financial crisis in 2007-09,** and the **"taper tantrum" episode in 2013,** which is a sign of their increasing maturity.
  - Further, among major emerging market economies, Indian markets outperformed their peer in April-December 2021.

GROWTH IN OUTSTANDING STOCK OF THE INDIAN CAPITAL MARKETS



- **Flourishing Primary market:** In the year 2021-22, there was a boom in fundraising through IPOs by many new-age companies/tech start-ups/unicorns.
  - In April-November 2021, Rs. 89,066 crores were raised via 75 IPO issues, much higher than in any year in the last decade by a large margin.
- **Diversification:** In addition to equity and debt, the capital market is also diversifying into a large number of new instruments such as hybrids & convertibles, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), etc.
- **Growing participation:** Participation by individual investors in the equity cash segment has increased considerably from 36% in 2016-17 to 45% in 2020-21.

WHAT ROLE DOES THE CAPITAL MARKET PLAY IN PROMOTING AND SUSTAINING THE GROWTH OF AN ECONOMY?

There has been a strong correlation between capital markets and economic growth, with well-developed capital markets offering a variety of benefits to all its participants–

For the Industries

- **Reduced funding costs:** Capital markets offer an alternative source of funding, better pricing, and longer maturities, as well as access to a wider investor base, thus reducing overall funding costs.
- **Equitable development:** Capital markets allow companies to give their employees shares via employees' stock ownership plans (ESOPs).
- **Transparency in working:** A well-functioning capital market tends to improve information quality as it plays a major role in encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment, which is founded on integrity.
- **Enabling expansion:** Existing companies, because of their performance can expand their industries and also go in for diversification of business using funds channeled through the capital market.

For the Overall Economy

- **Capital formation:** It plays a critical role in mobilizing savings for investment in productive assets, with a view to enhancing a country's long-term growth prospects, and thus acts as a major catalyst in transforming the economy into a more efficient, innovative, and competitive marketplace within the global arena.
- **Stability in the market:** They can serve the financial sector by enhancing financial stability and reducing vulnerabilities to exchange rate shocks and sudden interruptions of capital flows.
- **Attracting Foreign investment:** A well-developed capital market is capable of attracting funds even from a foreign country through foreign investments.
- **Funding risky ventures:** Capital markets provide viable long-term funding to crucial sectors of the economy such as infrastructure, which may find it difficult to secure funding through risk-averse banking systems.

For the Investors

- **Better returns:** Capital markets can offer more attractive investment opportunities with better returns.
- **Risk management:** With a wider range of securities and instruments offered, capital markets can help investors diversify their portfolios and manage risk.
  - This is particularly important for institutional investors, including pension funds and insurance companies.

For the Government

- **Alternative source of funding:** A developed local capital markets provide an alternative source of funding that can complement bank financing.
  - It allows them to finance the fiscal deficit by borrowing from the local market without exchange risk.
- **Facilitating Disinvestment:** Capital markets provide an excellent route for disinvestments to reduce the fiscal burden and raise money to meet public needs.

HOW CAN THE CAPITAL MARKET BRING CHANGE IN SOCIETY?

Through its various instruments, Capital markets have the potential to emerge as a mechanism that can potentially help channel funding for the sustainable development of society. **Some key instruments have been discussed below-**

SOCIAL UPLIFTMENT

- **Impact bonds:** These are unsecured bonds to raise funds towards a project with a social impact or development impact. The investors agree to pay on the condition that the money raised has led to pre-determined variable social outcomes.
- **Social stock exchange:** It provides an alternative fund-raising mechanism for Non-Profit Organizations to get listed and raise funds for social work including eradicating hunger, poverty malnutrition, and inequality, promoting gender equality, ensuring environmental sustainability, and promoting education.
- **Muni Bonds:** It is a debt instrument that is issued by municipal corporations and other associated bodies in India. These bonds are issued for socio-economic development purposes, providing amenities to households or other public projects.
- **Small and Medium Enterprises (SME) exchanges:** This Platform provides an entrepreneur and investor-friendly environment that allows Small and Medium Enterprises (SMEs) from unorganized sectors to be listed in a regulated and organized market. These help in enabling equity resource mobilization through market participation.
- **Agricultural commodity derivatives markets:** They can help farm sector by providing a nation-wide platform for the discovery of prices, catalyzing the development of marketing infrastructure like warehousing and enabling physical market participants to hedge their price risk.

SUSTAINABLE INVESTMENT AND CLIMATE FINANCE

- **Environmental, Social and Governance (ESG) considerations:** Through ESG reporting for listed companies, capital market can lead to more long-term investments in sustainable economic activities and projects.

  They also empower consumers to make more sustainable decisions about the products they buy and the companies they support.

- **Green bonds:** These are capital market instruments designed to support specific climate-related or environmental projects, aimed at reducing the anthropogenic impact on the environment and climate.

WHAT FACTORS HAVE BEEN RESPONSIBLE FOR THE GROWTH OF THE CAPITAL MARKET IN INDIA?

- **Modernization of trading systems:**
  - **Depository System:** A major reform in the Indian Stock Market has been the introduction of a depository system and scripless trading mechanism since 1996. Before this, the trading system was based on the physical transfer of securities.
    - National Securities Depositories Ltd (NSDL) and Central Securities Depositories Ltd (CDSL) in India hold financial securities, like shares and bonds, in dematerialized form and facilitate trading in stock exchanges.
  - **Screen-Based Trading:** The Indian stock exchanges were modernized in the 90s, with a Computerised Screen-Based Trading System (SBTS). It electronically matches orders on a strict price/time priority. It cuts down time, cost, and risk of error and fraud, and therefore leads to improved operational efficiency.
- **Quicker Settlement of trades:** SEBI introduced Rolling Settlement for all stocks in all stock exchanges in 2001, ushering in a landmark change.
- **Increasing Awareness:** Business newspapers and financial journals have made people aware of new long-term investment opportunities in the security market.
- **Emergence of new instruments:** New financial instruments like Mutual Funds, Venture Capital Funds, etc. emerged to provide medium and long-term funds to those firms, which found it difficult to raise funds from primary markets and by way of loans from banks.
- **Growth of ancillary industries** like Merchant Banking and Underwriting Business helped in providing services including capital issue management, provision consultancy services, etc. necessary for the growth of capital markets.
- **Liberalization Measures:** Economic liberalization of the 1990s provided a lasting impetus with Foreign Institutional Investors (FII) being allowed access to the Indian capital market.
  - While India has come a long way in liberating capital account transactions in the last three decades, it currently has partial capital account convertibility.

Full Capital account convertibility (CAC): Is India ready?

The capital account records the **net change in foreign assets and liabilities held by a country.** Convertibility refers to the ability to convert domestic currency into foreign currencies and vice versa to make payments for balance of payments transactions.

Capital account convertibility is **the ability or freedom to convert domestic currency for capital account transactions.**

Free capital mobility helps in **broadening the investor base for recipient country financial assets potentially reducing borrowing costs, facilitating better risk allocation and enhancing global liquidity.** However, it can also lead to risks like **higher exposure to global shocks, credit and asset bubbles and volatility in the exchange rate, make inflation targeting difficult, etc.**

Thus, Tarapore Committee was constituted by the Reserve Bank of India for suggesting a roadmap for full convertibility of the Rupee on Capital Account which presented several prerequisites.

Parameters	Recommendations	Present situation
Fiscal deficit	Reduced to 3.5% of the GDP.	Fiscal deficit for FY 2021-22 was 6.71% of GDP.
Inflation rates	Controlled between 3-5%.	Inflation measured by Consumer Price Index (CPI) was 5.88% in November 2022.
Non-performing assets (NPAs)	Brought down to 5%.	Gross NPAs was 5.9% as of March 2022.
Cash Reserve Ratio (CRR)	3%	At present CRR is around 4.5%.

Thus, to reap the full benefits of full CAC, India first need sound macroeconomic fundamentals, a well developed financial system and a sound market infrastructure, including efficient markets for funding and risk transfer.

- **Development of Institutional framework:**
  - **Credit Rating Agencies:** A credit rating agency rates the creditworthiness of instruments including corporate bonds, government bonds, certificates of deposit, and other debt instruments that have collateral, thus providing guidance to investors for determining credit risk.
    - The Credit Rating Information Services of India Limited (CRISIL) was set up in 1988 and Investment Information and Credit Rating Agency of India Ltd. (ICRA) was set up in 1991.
  - **Development Banks and Financial Institutions:** For providing long-term funds to industries, the government set up several Development Financial Institutions (DFIs), including the newly established National Bank for Infrastructure Financing & Development (NaBFID),
    - The first DFI Industrial Finance Corporation in India (IFCI) was set up in 1948, followed by a number of other development banks and institutions like the Industrial Credit and Investment Corporation of India (ICICI) in 1955, the Industrial Development Bank of India (IDBI) in 1964, etc.
  - **Independent regulatory body:** The Securities and Exchange Board of India was established as a statutory body in the year 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected.

Legislative framework governing the capital market in India

- **The companies Act 1956 as amended in 2013** deals with issue, allotment and transfer of securities, disclosures to be made in public issues, underwriting, rights and payment of interest and dividends.
- **Securities Contract (Regulation) Act, 1956:** The regulatory Act deals in all types of issues related to Stock trading. It prevents any kind of defective transactions.
- **The depositories Act, 1996** provides for establishment of depositories for electronic maintenance and transfer of ownership of demat securities.

GLOBALIZATION OF INDIAN CAPITAL MARKET: IMPACT OF GLOBAL CRISIS ON INDIAN MARKET

With the global outlook being clouded by **recession risks post pandemic and due to headwinds from geopolitical developments (Russia-Ukraine war)**, high risk aversion has gripped financial markets, producing surges of volatility, sell-offs of risk assets and large spill overs, including flights to safety and safe haven demand for the US dollar.

As now India is more connected due to factors like, advances in ICT, liberalization of national financial and capital markets, competition among the providers of intermediary services etc., volatility across global economies can have a significant bearing on the Indian capital market.

However, Indian economy can still remain resilient with the support of **strong macroeconomic fundamentals and buffers.** Thus, given the uncertainties of the current period, India should remain dynamic and pragmatic while managing risks.

WHAT ARE THE POSSIBLE DEFICIENCIES IN THE INDIAN CAPITAL MARKET?

Indian economy is one of the largest and fastest-growing economies in the world. There have been various reforms that have acted as a catalyst in the growth of the Indian economy. However, specific challenges continue to block the development of the Indian capital market.

- **Inadequate disclosure:** Quality of information companies are giving out under disclosure norms is not adequate with many companies treating the disclosure requirements just as a **check-box exercise** in their annual reports. Lack of proper disclosures can mislead the investors.

- **Inadequate Protection to Investors:** The protections given to investors in case of default by brokers and sub-broker are inadequate. Further, there is also a lack of effective investor grievance redressal mechanisms.
- **Slowing retail participation:** The share of retail investors in the cash market volumes on the National Stock Exchange has dropped to 34.7 percent as in May 2022, the lowest in at least five years, mainly due to volatility ion domestic and global markets.
  The share of household savings invested in equities in **Tier II and Tier III cities is low.**
- **Fragmentation of Regulatory Authorities:** The present functions and powers of regulatory agencies for the securities market seem to be fragmented.
  - SEBI is the primary body responsible for the regulation of the securities market.
  - RBI also has regulatory involvement in the capital market regarding foreign exchange and regulates primary dealers in the Government securities market.

- **Malpractices, Unfair practices and scams:**
  - **Price Manipulation:** It is a common practice that prices of shares of companies proposing to come out with a public issue or right issue are artificially pushed up in the market.
    - The growing use of social media applications and exchange of information through these forums has provided platforms to investors that may enable the coordination of their actions to manipulate the stock market in the short-term.
  - **Colocation scam:** National Stock Exchange (NSE) was involved in a scam relating its colocation facilities, which gave unfair advantage to its traders.
  - **Insider trading:** The Annual Report of SEBI for the year 2016-2017 revealed that of all the investigations taken up by SEBI, the Insider Trading cases covered 14% of cases (34 in number) in the year 2016-2017 as opposed to 12 cases in the year 2015-2016. With each passing year, the offense of Insider trading is significantly increasing.

NSE's colocation scam: How the Scam took place?

Co-location facilities are **dedicated spaces in the exchange building**, right next to the exchange servers, **where high – frequency and algo traders can place their systems or programs.**

Owing to the **close proximity to stock exchange servers, traders in these facilities can have an advantage over others as they got faster access** to the price feed distributed by the stock exchange.

It was alleged that one of the trading members was provided unfair access between 2012 and 2014 **that enabled him to log in first to the secondary server and get the data before others in the co-location facility**.

This preferential access allowed the algo trades of this member to be ahead of others in the order execution.

Since then, SEBI has put in place stricter regulations to close the loopholes and to address concerns relating to co-location facilities, including by making trading feed free of cost to all trading members and asking exchanges to provide 'managed co-location service' through eligible vendors for ensuring low-cost services to all interested brokers.

IN CONVERSATION!

HOW INSIDER TRADING IMPACTS CAPITAL MARKETS?

Vini: Hello Vinay! Have you seen the web series "Scam 1992"?

Vinay: No. I haven't. But I know it is based on the insider trading scam.

Vini: Yes. I still didn't completely understand how insider trading works.

Vinay: Well Vini, Insider trading happens when trading of shares is done by someone who has access to unpublished price-sensitive information about a particular company's shares or securities.

Vini: What is price-sensitive information?

Vinay: It is any information related to a company, which if published is likely to materially affect the price of securities of the company. This includes periodical financial results of the company, any major expansion plan, amalgamation, mergers or takeovers etc.

Vini: Okay. But how does access to this information affect the market?

Vinay: Have you ever invested in the stock market?

Vini: Yes.

Vinay: So, what made you invest in a particular company?

Vini: I looked at the company's past performance, analysed ongoing events related to it, and predicted how it would perform in the future.

Vinay: What if a person associated with the company told you that the company is planning for a major capacity expansion. But this information has not been made public at large.

Vini: Well, I can invest in the company knowing surely that it's share prices will rise in the future. Wouldn't that give me an unfair advantage over other investors?

Vinay: Exactly! By doing so, Insider trading hurts the integrity of capital markets.

Vini: Thanks for explaining Vinay!

- **Incompetency of Credit Rating Agencies (CRAs):** There have been instances when CRAs don't do a competent, honest, and independent job, which can have wide-ranging consequences as seen in the case of companies such as IL&FS. Some issues identified with the working of CRAs include-
  - Issuers are charged for ratings by CRAs (i.e., the issues are paymasters), and the independence of ratings becomes questionable.
  - CRAs are not accountable for the ratings given by them.
- **Disruptions brought on by evolving technology:** Technological transformations like Artificial intelligence, robot advisory, Decentralized finance (DeFi), etc. are changing how capital markets function, giving rise to new regulatory challenges like increased risk of data thefts, and technical downtimes, lack of transparency, impact on competitive landscape etc.
- **Other issues:**
  - **Lack of diversification in instruments,** especially in the commodities market and social and green bonds.
  - **Weakness in industrial production trend:** Lower production is normally associated with lower demand and this is a signal of a slowdown in economic activity and leads to a lack of investment in the capital market.
- **Decline in the volume of trade in regional stocks.**

Despite prevalent shortcomings, regulatory bodies have been proactively taking steps to strengthen India's capital markets in the face of ongoing issues.

Algo trading: A concern for Indian capital markets?

Algorithmic trading refers to **orders generated at superfast speed by the use of advanced mathematical models** that involve automated execution of trade. Almost 50% of daily trading volume in India is executed through Algo Trading.

Algo trading is capable of **deepening the capital markets, aiding retail investors** and generating benefits like **faster speed and accuracy in placing trades.**

However, unregulated platforms in India are offering algorithmic trading services or strategies to investors without taking requisite approvals from the exchanges. This can lead to risks like **misuse for systematic market manipulation, luring the retail investors by guaranteeing them higher returns, lack of proper grievance redressal mechanism, and unfair advantage over small brokers** etc.

Further, algorithms may lack of visibility and transparency and cannot compete with the ability of the human brain to react to unanticipated changes and opportunities.

Thus, appropriate regulatory mechanisms need to be established to manage risks effectively.

RECENT STEPS TAKEN FOR STRENGTHENING INDIA'S CAPITAL MARKETS

- **Tightening of disclosure norms:** SEBI mandated enhanced disclosure norms for IPO-bound companies. Companies would have to disclose key performance indicators, details of pricing of shares based on past transactions and past fundraising from its investors.
- **New framework to prevent insider trading:** SEBI has created a framework that will prevent company insiders from dealing in shares during the closure of the trading window.
  - Further, mutual fund houses have been included in the stringent SEBI Prohibition of Insider Trading regulations.
- **Regulating algo trading:** SEBI came out with guidelines for stockbrokers, who provide services relating to algorithmic trading to investors, to prevent instances of mis-selling.
- **Norms on Alternate Investment Funds (AIFs), Venture Capital Funds (VCFs) investments eased in overseas markets:** SEBI released guidelines to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
- **New framework for credit rating agencies (CRAs):** New framework, applicable from January 1, 2023, aims at enhancing transparency and improving the rating process for Credit Enhancement (CE) ratings.
- **Shortening of settlement cycle:** SEBI allowed T+1 settlement on optional basis. This can reduce the risk of pay-in/pay-out defaults, lower margin requirements and give investors more liquidity with the availability of funds and securities
- **Focus on social responsibility:**
  - **Framework for Social Stock exchange:** SEBI notified a framework introducing a social stock exchange in India, which will provide social enterprises an additional avenue to raise funds.
  - **Business Responsibility and Sustainability Report (BRSR):** BRSR aims to establish links between the financial results of a business with its ESG performance. SEBI directed Top 1000 listed companies in India to publish an annual BRSR from 2021-22 on a voluntary basis, and from 2022-23 onwards on a compulsory basis.
  - Sebi announced **that issuers of municipal debt securities can issue green bonds** in compliance with guidelines.
- **Liberalisation of Forex Flows in capital markets by RBI**
  - **Introducing the Fully Accessible Route (FAR):** Through FAR non-residents can invest in specified government securities without any restrictions.
  - **Easing of the external commercial borrowing (ECBs) framework:** End-user restrictions like cost ceiling etc. were relaxed by RBI.
    - For instance, the limit under the automatic route of ECBs was temporarily increased from US$ 750 million or its equivalent per financial year to US$ 1.5 billion.
  - **Increased the limit for foreign portfolio investors (FPIs)** to invest in the local debt market from Rs 1 lakh crore to Rs 2.5 lakh crore under the Voluntary Retention Route (VRR).
    - The RBI introduced the **Voluntary Retention Route (VRR)** to assist Foreign Portfolio Investors (FPIs) in investing in India's debt markets.

WHAT MORE CAN BE DONE TO SUSTAIN THE GROWTH IN INDIA'S CAPITAL MARKET?

- **Expand the retail investor base:** To sustain the current momentum in the growth of retail participation, retail investors should be empowered with appropriate analytics, including stock performance metrics through various modes such as websites of intermediaries, including exchanges.
  - Tier II and Tier III cities should be the focal point to attract investment in Capital Markets.
- **Strengthening the legal and regulatory framework for investor protection:** One of the most critical building blocks of market infrastructure is a proper legal framework that ensures investor protection by acting as a deterrent to market abuse and malpractices.
- **Enhancing quality of disclosures:** Documents as important as the financial results, annual reports, and corporate governance reports need the level of quality the investors deserve.
- **Effectively curbing malpractices and scams:**
  - **Legal actions:** Class Action Suits can be introduced against erring corporates with special courts that should be assigned to deal with related matters.
  - **Stringent measures** to be taken against companies as well as financial intermediaries engaged in any unfair or unethical selling trade practices.
  - **Redressing Insider Trading:** It is not possible to fully control the actions of the Insiders and hence, the people holding the top managerial positions i.e., the directors, officers, and other members of the company should set high standards of ethical behavior in their organizations.
- **Reforming Credit Rating Agencies:** Interventions like the 'investor pay' model, higher transparency standards while issuing ratings, etc. can safeguard the interests of investors.
- **Regulation of Algo trading:** A strategy and program can be introduced so that algo trading is to be approved by the exchanges before they are deployed by traders.
- **Diversification:** For increasing resource mobilization, there is a need to focus on other instruments like green bonds and commodities markets.

CONCLUSION

In light of the investment requirement and the maximizing financing for development (MFD) strategy, there is a greater need to develop and strengthen capital markets, as they can help to mobilize financing. Capital markets can have a role in channelling financing to the corporate sector and other strategic sectors such as infrastructure, education etc. and can help achieve the target of 5 trillion dollars economy.

TOPIC AT GLANCE

Capital markets are part of the financial markets where buyers and sellers can engage in the trade of long-term (period greater than one year) financial instruments.

Status of India's capital market

- The equity market has experienced **consistent growth** during the past few decades.
- In addition to equity and debt, the capital market is also diversifying into a large number of new instruments such as **hybrids & convertibles, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), etc.**
- The money raised by **Initial Public Offering** has been the greatest in the last decade.

The role played by the capital market in promoting the growth of an economy.

- **For the industries**
  - Reduces funding costs by offering an alternative source of funding.
  - Equitable development.
  - Bring transparency to working.
  - Enable expansion of business.
- **For Government**
  - Alternative source of funding
  - Facilitates Disinvestment
- It gives better returns **to investors.**
- **For economy**
  - Helps in Capital formation.
  - Brings stability to the market.
  - Attracting foreign investment.
  - Funding risky ventures.

Status of India's capital market

- Modernization by **depository system and Screen-Based Trading** to improve efficiency.
- **Rolling settlement** for quicker settlement.
- Growth of **awareness.**
- **The emergence of new instruments** like mutual funds and venture capital funds etc.
- **Growth of ancillary industries** like merchant banking and underwriting business.
- **Liberalization measures** to tap foreign capital.
- **Development of the institutional framework** like credit rating agencies, development banks, and independent regulatory body.

Deficiencies in the Indian capital market

- **Inadequate disclosure:** Lack of quality information disclosed by companies.
- **Inadequate Protection to Investors** like lack of grievance redressal mechanism.
- **Slowing retail participation** and lack of investment from smaller cities.
- **Fragmentation of regulatory power** between SEBI and RBI.
- **Malpractices, unfair practices and scams like** price manipulation and insider trading hamper the trust of investors.
- **Issue of independence of Credit Rating Agencies (CRAs)**
- **Disruption by technology like** Algo trading, artificial intelligence, robot advisory, etc.
- **Other issues**
  - **Lack of diversification.**
  - Weakness in industrial production and **slowdown in the economy.**
  - Decline of trade in **regional stocks.**

Step required to sustain growth in the Capital market

- **Expanding the participation of retail investors.**
- **Strengthening the legal and regulatory framework for investor protection.**
- **Enhancing the quality of disclosures** by increasing the quality of financial results, annual reports, etc.
- **Effectively curbing malpractices and scams.**
  - Legal action against erring corporates.
  - Stringent measures against unethical trade practices.
  - Redressing insider trading.
- **Reforming credit rating industry** through measures like 'investor pay' model, etc.
- **Regulation of algo trading.**
- **Diversification** for increasing resource mobilization.