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Formation Of Strong Indian Capital Market – From The Annals Of History

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Abstract

Capital market that we see today in India has evolved over more than two centuries and its genesis lies in developments that took place during rule by East India companies. The nascent markets that emerged during the period have matured and are one of the most progressive markets in the world today. The Indian capital markets are robust, use best of the technologies and generate interest from across the world. This work draws inspiration from many printed resources that include, academic articles, reports and books. The paper attempts to identify the nascent stages of formation of capital markets in the country over time. From a historical perspective the Indian capital market is closely interwoven with the Bombay Stock Exchange which is also first exchange to be formed in Asia. The paper also covers shape of present-day capital market that has emerged over time. The paper explains how the capital markets have expanded across different cities for several decades and then, constrained with the environmental changes, they consolidated.

Keywords: Capital market, economic reforms, equity and debt market, evolution, investor protection, stock exchanges.

Introduction

Academics, financial specialists, and entrepreneurs all concur that capital markets are a significant topic of study. The capital market, an organised structure for trade in long-term funds in form of debt and equities, facilitates financial resources to the business world by channelising savings. Raising capital through the capital markets allows businesses, governments, and other organisations to finance their operations, investments, and initiatives. India's financial markets have migrated from manually run to automated systems over the period of a few decades. Prior to 1997, the bulk of transactions involving equity shares utilised paper-based manual procedures. Because the physical certificates had to be carried from the seller to the buyer and a name change had to be performed by the corporation's transfer agents, the real transfer use to take days and sometimes months to accomplish. There were inherent risks in the system as it was vulnerable to counterfeit documents, false paperwork, and fraudulent commercial operations against the interest of investors particularly, the small retail investors. The markets are different now. The Indian financial markets, which may be divided into two broad categories—primary and secondary—are presently at high level of maturity. Indian capital markets are controlled by regulatory body – Securities and Exchange Board of India – to ensure openness, fairness, and the protection of investors, as the efficient functioning of capital markets is essential to the overall economic health. This paper seeks to address following objectives:

1. Describe ancient business systems prevailing in India that can be related to corporate form of business structure.
2. Describe the origin of the capital market and their birth in India.
3. Explain the ways in which the Indian capital market has evolved in pre-independence and post-independence period.
4. Explain that stock exchanges have progressed from geographically restricted serving areas to technology progressive cloud based operations with global reach.
5. Examine how the technology has altered the capital market structure and assess risks and reward paradigm for the retail investors.

Backdrop

In ancient times, India possessed unrivalled financial and economic supremacy, which contributed to the country's enormous economic prosperity. Ancient relics and writings demonstrate that India formerly had a affluent, high-performing economy with a diverse range of economic activity (Kanagasabapathi, 2007). India was thriving, very strong global economy with a major share in Global GDP. In the year 0 AD approximately one-third of the global GDP was ascribed to the contribution of India to the global economy (Maddison, 2006)[1]. The dominance of India in terms of the world gross domestic product (GDP) persisted nearly until the culmination of the seventeenth century. At

[1] Based on data given in Table B–18. World GDP, 20 Countries and Regional Totals, 0–1998 A.D., Page 261.

Maddison, A. "The World Economy".

that time, India had a share of more than twenty-four percent of the global GDP, which was greater than the GDP of all west European countries combined at that point in history. (Maddison, 2006).

Ancient texts reflect that during India's long and distinguished history, considerable importance was put on the significance of money and the accumulation of wealth. The Arthasastra, credited to Kautilya and dated to the fourth century B.C., is one of the first writings on economics and statecraft. Written with the perspective on state governance, the book is equally pertinent to the effective operation of enterprises even in today's global business environment (Bharati and Das, 2012). In contrast to some assumption, the economy of ancient India was not backward as a few people think it was. Taking into account the conditions that existed at that time Indian arts, craft and business was one of the best in the world. Similar to modern large organisations, there were enormous organisations during those days that took the form of cooperatives and were referred to as Sreni (Guilds). The earnings from these Sreni were split among the partners either equally or in accordance with an arrangement made in advance in the event that shares were not equal. (Rangarajan, 1992). Akin to need of regulatory supervision of today, even during those times, it was recognised that there was a need to govern unfair business activities, and procedures were developed to facilitate fair commercial transactions. According to Kautilya, merchants were constantly eager to increase their wealth at the expense of the people who bought their wares and must be regulated for fair dealings (Rangarajan, 1992). This can be correlated to misappropriation or wrongdoings by owner groups in companies widely discussed in academic literature. India already held a position as one of the world's leading economic powers when the industrial revolution began. During that period, England's cotton industry was able to acquire a head start since there was previously established systemic commerce in Indian textiles that was readily available. Capitalising on available logistical infrastructure, England built an advantage with relatively cheap cost of production. With the low manufacturing costs in England, their cotton business was able to quickly dominate the handloom sector in India. (Beckert 2014).

Origins of modern capital markets

The origins of modern capital markets can be attributed to the period covering late sixteenth and early seventeenth centuries. Smith, 2004, noted that establishment of Dutch East India company to be one of the seminal moments in the formation of the contemporary stock markets. While Dutch company was the first joint stock corporation to ever be granted a permanent charter, Smith, 2004, identified that the establishment of the first joint-stock firms took place in England in the sixteenth century. However, these early joint-stock companies only held transitory licences, and in a few instances, such charters were only valid for a single journey. Examples of these early joint stock companies from the year 1533 in England were Muscovy Company chartered for trade with Russia and another organisation with the interesting name Guinea Adventurers. The Amsterdam Beurs is considered the oldest stock exchange that is still functioning. There is a list of stocks traded in the year 1585 in the exchange still available. The exchange got prominence and continued its supremacy for two centuries as a premier stock exchange with the Dutch reigning the trade and commerce (Shroff, 1962).

Petram, 2011 in his research noted that in the year 1602, the States General of the Dutch Republic passed the Verenigde Oost-Indische Compagnie (VOC, Dutch East India Company) charter for conducting business. The charter of the Dutch Company extended an invitation to the people living in the United Provinces to purchase shares of capital stock, similar to joint stock company of today. From the first of April until the thirty-first of August, the registers of the company were made available for subscriptions in six separate towns. These cities were Amsterdam, Delft, Enkhuizen, Hoorn, Middelburg and Rotterdam. These six cities served as partially independent chambers that collectively comprised the Dutch East India Company. The chambers were autonomous with their own administration to manage their respective ships. The ships owned by the chambers sailed together in collective fleets to and fro East Indies. Back from the travel, they proceeded to their respective chambers that had provided them with the necessary equipment. As a result, every chamber was responsible for handling its own shipment of commodities and holding its own auction of the items that were brought in. However, earnings of all the separate chambers were pooled together before being distributed among the chambers in proportion to each chamber's overall contribution to the total capital, regardless of efficiency of its own operations and the separate profits generated. Thus, each chamber was guaranteed to get the same predetermined percentage of the collective overall profit. The new organisation took the form of a joint-stock company rather to the more common form of partnerships, which is the sort of business structure that was typically utilised by commercial enterprises.

The Dutch East India Company provided the foundation for the contemporary corporation, a distinct entity from its controlling stockholders operating independent of them. It paved the groundwork for the modern corporation. This meant that partners had no legal right to seek a refund of their investment after a successful journey; if they want to convert their ownership into cash, their only choice was to sell it to a third party. As a direct result of this, the necessity for a market for stock shares arose. The secondary market for the Dutch East India Company shares are acknowledged to be the first securities market in the history to provide the advantages of modern securities markets to the investors. The market provided the benefits of price discovery and the provision of liquidity. In the initial period the growth of capital markets remained concentrated in the European countries. From the German supremacy the epicentre of trade and development shifted to London in the eighteenth century.

Foundational Period of Capital Markets in India

The financial sector in India has evolved and gotten more sophisticated over the course of a long length of time. The initial years of corporate form of business organisations involved entry of European commercial businesses during the late 16th and early 17th centuries. During the period Dutch, Portuguese and English East India companies were expanding themselves in the different parts of India. During these initial phases, large-scale organised commerce was conducted by European companies in India. The notion of merchant capital was formed in India via the development of cooperative ventures between individual merchants.

Earliest records reflect, though in a vague and indeterminate manner, that the loan securities were transacted in late eighteenth century. Those were the times when East India Company (EIC) flourished and grew. The initial decades of the nineteenth century witnessed significant growth in the business and a rise in the trade of loans and shares. The primary centres for trading were Mumbai (Bombay) and Kolkata (Calcutta), with the former being the main trading centre and having bank shares as the main trading stock. By 1830s the financial markets started taking a definite shape. In Mumbai, transactions took place in shares of banks, viz., Agra Bank, old Bank of Mumbai, Chartered Bank, Chartered Mercantile Bank, Commercial Bank, Oriental Bank. There were also prominent deals in the shares of cotton presses in Mumbai. Similarly, documents show that loans and stocks of East India Company and Bank of Bengal were traded in Kolkata in the year 1836. The list expanded by the end of the decade with trades in Agra bank, Bengal Bonded Warehouse, Docking Company, Steam Tug Company and Union bank.

During these early years, the financial markets were nascent with very little public interest. The brokers carried out trading in securities on behalf of their customers, however, the volume of those transactions was negligible. In the middle of the nineteenth century, there were only a handful of brokers who were accepted by both merchants and banks. There number was roughly six. In 1849, Seth Premchand Roychand entered the list of stockbrokers and quickly rose to a prominent position because he possessed a strong command of the English language. Epithets associate him as “Bullion King” “Cotton King” and “Napoleon of Finance.” In addition, there was a lack of infrastructure for the marketplaces throughout these initial years. When there were no suitable locations for carrying out business in the securities industry, brokers would frequently carry out their transactions while standing beneath a banyan tree. This relationship between the banyan tree and early stock exchanges in India has a long and storied history. There was a rise in the demand for brokerage services as a consequence of the continuous expansion of activity on the capital market throughout the time.

In 1850, a law, based on the Joint Stock Companies Act, 1844 of England was enacted in India for registration of joint stock companies. The Act recognised a joint stock company as a distinct legal entity but was devoid of concept of limited liability. The system of limited liability was also initiated with the enactment of Joint Stock Companies Act, 1857. The Act was based on the British law of 1856 with the same name.

In 1855, the grouping of brokers that assembled beneath the banyan tree included more than 40 persons. Between 1860 and 1865, the share mania that was later known as the Mumbai Bonanza began. Cotton shipments from the United States to Europe were severely hampered during this time period as a direct result of Civil War in America. When other European nations came to rely on Indian cotton, it presented a chance for India to increase its market share in that sector. With Mumbai being one of the most major exporters of cotton, the period from 1860 to 1861 observed a consequential boom in the share prices and resultant flourishing of the trading activities. To cope up with the scarcity of cotton, exports to European countries from India increased rapidly. The exports doubled from 5,66,000 bales to 11,18,000 bales in Mumbai and in exchange silver and gold worth Rs 52 Crore reached the city of Mumbai. The business expanded, and within two years there were 131 different companies. The interest in the markets spiralled out of control and became increasingly irrational. The cost of cotton climbed precipitously and reached high levels in a short amount of time, that had never been seen before resulting in the first boom of the Indian Capital Market that persisted for about half a decade, followed by bubble burst and severe crash in prices. The share market crashed on July 1, 1865 with the end of the American civil war. There were hundreds of bargains that matured with no one to fulfil them. There was widespread devastating cloud of doom in the Mumbai city. The stocks of the Bank of Mumbai fell to Rs. 87 against its summit rate of Rs. 2850. Many reputed businessmen and brokers including Seth Premchand Roychand went bankrupt. With the collapse of the bubble, the brokers were placed in a precarious situation. The bank employees saw them as a nuisance and avoided interacting with them in all possible ways, and did not shy even to take police assistance. During this moment, there was a widespread lack of interest in the markets, and the brokers were running around insecurely.

In 1866 a comprehensive Companies Act was enacted to provide incorporation, regulation and winding up of companies. Gradually, the interest in the capital market was again generated. It was only in the year 1874, brokers finally started informally assembling in a street which is is now known as Dalal Street.

In the year 1875, the stockbrokers organised themselves to form an informal group that was later recognised as the 'The Native Share and Stock Brokers Association, Mumbai'. The association functioned in a trading hall in Dalal street that was hired in 1874 in a building known as Advocate of India on a monthly rent of Rs 100. The importance, as well as strength of the membership, grew rapidly. The growth necessitated the need of leaders to manage their affairs. Seth Choonilal Motilal Patwari became the founding President of association and retained the position till December 14, 1896. The brokers executed a formal Deed of Association on December, 3 1887 to form a society called Native Share and Stock Brokers Association. With the dead the articles of association of the exchange was formalised with constitution of its first managing committee and first trustee. The first set of trustees and first managing committee was constituted.

The name of association was later changed to Bombay Stock Exchange. Later, in 1895, the old Stock Exchange building, situated on Dalal Street was purchased for Rs 97,500. The same was inaugurated by James McLean in the year 1899. The Bombay Securities Contracts Control Law was implemented in 1925 to control contracts related to trade in securities. Under the Act the Native Share and Stockbrokers' Association was recognised in the year 1927.

Evolution of Capital Markets in India - Birth and Major Milestones

1605-27	Reign of Mughal emperor Jahangir. Arrival of various East India Companies in India
1668	English East India Company got control of Bombay and in next two years its Headquarters shifted to the city from Surat.
18^{th} Century	Toward the end of 18^{th} century loan securities were issued by English East India Company.
1830's	Trading of loans of East India Company and some banks.

1844	Colaba, Bombay emerged as a centre for cotton trading.
1850	First law on Joint Stock company enacted in India as Joint Stock Companies Act.
1857	Recognition of limited liability concept in companies
1860-65	Period of first boom of Indian Capital Market
1865	Severe crash with the end of civil war in America
1866	Enactment of the Companies Act based on English Companies Act of 1862. The Act was first comprehensive Act to provide incorporation, regulation and winding up of companies.
1882	The Companies Act was amended and remodelled.
1874	Brokers started assembling at a street Bombay which became popular as as Dalal Street.
1875	Formation of association of brokers – The native Share and Stockbrokers' Association.
1887	Stock Exchange was formally established in Bombay with execution of indenture as a society - Native Share and Stockbrokers' Association.
1895	A building - old Bombay Stock Exchange Building - was purchased for Rs. 97,000.
1908	Formation of Calcutta Stock Exchange Association.
1925	Enactment of Bombay Securities Contracts Control Act.
1927	Recognition of Native Share and Stockbrokers' Association under the Bombay Securities Contracts Control Act, 1925.
1937	Formation of Madras Stock Exchange Association (Pvt) Ltd.
1947	Enactment of Capital Issues (Control) Act, 1947.
1956	The Securities Contracts Regulation Act of 1956 is passed. With the new law, the Indian government formally recognised the Bombay Stock Exchange which became the first stock exchange.
1986	Introduction of Sensex, a sensitive index to gauge the movement of share prices.
1988	A non-statutory organisation, the Securities and Exchange Board of India, was created by the Government.

1992	The Securities and Exchange Board of India Act, 1992 was passed to provide substantial powers to the interim body that was formed in 1988. Passage of Capital Issues (Control) Repeal Act, 1992. Incorporation of the National Stock Exchange.
1995	The Bombay Stock Exchange initiated electronic trading to shift away from open-cry floor system.
1996	Enactment of the Depositories Act, 1996 Establishment of the National Securities Depository Limited under the Act.
1999	Introduction of Dematerialisation System Promulgation of the SEBI (Credit Rating Agencies) Regulations, 1999
2013	Enactment of the Companies Act, 2013
2018	Promulgation of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements). Regulations, 2018

The Bombay Stock Exchange became the first stock exchange of the free India with the passage of Securities Contracts Regulation Act of 1956. The Bombay Stock Exchange, which was previously an “open-cry floor” trading exchange, adopted an online electronic trading system in 1995. It now claims to be the world's quickest exchange, at a recorded trade matching speed of 6 microseconds. In the year 1986, the Bombay Stock Exchange introduced a sensitive index to gauge the movement of share prices known as SENSEX. Sensex is still very popular and often equated with the status of Indian economy. The index was calculated using a "Market Capitalization-Weighted" approach consisting of thirty prominent stocks that represented large companies from a pool of important economic sectors. In 2003 the methodology was shifted to free float. The exchange is first exchange to be listed as a company with the name BSE Ltd.

Pre-independence Growth of Stock Exchanges

It just so occurred that the stock market expanded its reach well beyond Mumbai into other cities with increase in overall market activity. The increase in the number of commercial and corporate industrial operations in cities such as Ahmedabad, Calcutta, Madras, and Lahore prompted the establishment of stock exchanges in those cities. The growth led to the formation of many new stock exchanges in different parts of India. Many of them could not survive and were eventually closed down. There were cities with multiple exchanges and rival exchanges were also formed in Kolkata and Mumbai. Association and exchanges were formed in many cities including Ahmedabad, Cawnpore (Kanpur), Delhi, Hyderabad, Lahore, Nagpur. The membership of most of these exchanges ranged from 20 to 100.

Ahmedabad

Ahmedabad was a natural corollary of Mumbai on account of its proximity as well as early industry. At the time, many market players in Mumbai had their roots in Ahmedabad and adjoining areas. Further, during the ninth decade of nineteenth century, a large number of cotton mills were also established in the city. There was a natural need for an exchange to deal with the shares of these companies that had established in the region. Increase in business establishments and transactions enhanced the need for an organised set-up and thus "The Ahmedabad Share and Stock Brokers Association" was born in 1894 that was later named as Ahmedabad Stock Exchange.. The association in Ahmedabad was formed as not-for-profit body with a formal deed of association and trust deed. The exchange closely followed Mumbai to formulate its polices and strategies. The trading bodies in Mumbai and Ahmedabad had common members or had representation in the one-other through their family members. After World War – I, there was a significant rise in the business and this encouraged renting of property. Soon afterwards, the exchange invested Rs 3,60,000 to construct its own building.

Calcutta (Kolkata)

Simultaneous with the growth of cotton and textile industry in western regions of India , the eastern regions witnessed increased business activity in tea, jute and coal. Bengal, Bihar and Orissa became major hubs of industrial and market activities. Coinciding with the cotton boom in 1860's in Mumbai, there was Jute boom in Kolkata. Interestingly, in the lines of banyan tree in Mumbai trading in Kolkata was done under a neem tree. In 1864 there were about 90 Joint Stock companies, out of which 38 were in tea business. Shares of Jute gained significantly in 1870's followed by tea in the last two decades of nineteenth century. Initial years of twentieth century witnessed expansion in coal industry. From 1904 to 1908, there was a boom in share of coal business with prices reached astronomical heights. Later, in 1908 there were new entrants in the market with little knowledge, leaving many in vulnerable positions. Harsh realities of the market prompted its participants to have an organised body to protect the interest of traders and brokers. A few leading brokers grouped together to form Calcutta Stock Exchange Association on June 15, 1908. At its inception, the association had about 150 members.

The initial period was quite troublesome as depression in the trade followed coal boom, severely impacting business. Many brokers sustained huge losses with defaults and expulsions. The business was conducted in a building rented at Rs 1080 per month. Later, on June 07, 1923 the association was incorporated as a company with 210 members. The exchange constructed a five-storey building to fulfil the needs of brokers. The property, initially taken on lease, was purchased in the year 1933.

Madras (Chennai)

In the beginning of the twentieth century, deals in corporate securities started in Madras. There were two broker firms that monopolised trade in securities in the year 1903. The seeds of the Madras Stock exchange were sown in the year 1920 when the number of brokers increased to justify its formation. Business was conducted in a rented premises on Broadway by 25 active members out of total strength of 100 members. The general recession diminished the euphoria and the trade volume started withering away in the year 1923. However, subsequent growing interest in the shares and growth of business led to formation of Madras Stock Exchange Association (Pvt) Ltd on September 04, 1937.

Post-independence growth and Consolidation of stock exchanges

During the initial period of post-independence the Capital Market had not expanded significantly with the focus of the Government on providing basic needs by developing agriculture sector and start public sector undertakings in priority areas. Even though PSUs were viable and safer than private undertakings with respect to their paid-up capital, their shares weren't listed on the stock exchanges. There were strong regulations and strict supervision by Controller of Capital Issues that strictly controlled and limited companies from going public for about initial 45 years.

A little after independence, the Indian Parliament enacted Securities Contract (Regulation) Act, 1956 towards keeping control over the functioning of stock exchanges. In the subsequent year, leading exchanges of the country were recognised under the Act, viz, Ahmedabad, Bombay, Calcutta, Delhi, Indore and Hyderabad. These exchanges functioned for several years and served the local needs of investors. Many stock exchanges were established, in the decade of 1980's, viz., Bhubaneswar, Cochin, Coimbatore, Guwahati, Jaipur, Kanpur, Ludhiana, Magadh, Mangalore, Pune, Rajkot, Saurashtra and Vadodara.

The use of technology, the extension of global reach, and the rise of a few technologically progressive exchanges that functioned beyond geographical constraints led to the closure of other exchanges that were founded over previous times to cater to local or particular needs. These exchanges were shut down steadily. The growth in business seen by large exchanges made it challenging for smaller exchanges to remain profitable. Over the course of time, various stock exchanges in India ceased operations, either of their own accord or because the Securities and Exchange Board of India (SEBI), the country's regulatory body, did not renew their licences. The SEBI gave exit permission to a number of stock exchanges beginning in 2013. The closure was not limited to old age stock exchanges, Recent events have resulted in the SEBI derecognizing the Indian Commodity Exchange Limited via a notification dated May 18, 2022. In last decade nineteen historically relevant exchanges have been granted exit. With the exit many prominent exchanges in Ahmedabad, Bangalore, Cochin, Delhi Hyderabad, Jaipur and Kanpur, Ludhiana and Chennai closed down.

The establishment of the National Stock Exchange in the year 1992 was a watershed moment in the development of the securities market in India. This event marked the beginning of a new era in the country's history. It was developed by a handful of the most famous financial firms with the purpose of creating a modern trading system that is entirely automated and spans the length and width of the nation. Since it was first formally recognised as a stock exchange in the year 1993, it has experienced phenomenal growth and has been instrumental in reducing the length of time required for the settlement cycle.

Structure of New Capital Market

A multitude of factors and quick-paced changes in the last three decades led to emergence of present day capital markets. To have the right investment environment and help investors to make informed decisions, the government has made different laws and regulations. In India, the statutory framework to directly safeguard the interest of investors includes selected provisions that have been included in the Companies Act, 2013, Securities and Exchange Board of India (Issue of Capital And Disclosure Requirements). Regulations, 2018, the Securities Contract Regulation Act, 1956 and the Depositories Act, 1996. On April 12, 1988, the Indian government established an interim administrative body. the Securities and Exchange Board of India, for the sound growth of the securities market. The board initially functioned under the Ministry of Finance and was given wide-ranging powers in 1992 with the enactment of the Securities and Exchange Board of India Act, 1992. In order to secure the interests of investors, the SEBI instituted revolutionary changes to the capital markets, transforming them into a modern market that is on par with the best markets in the world. While investors' interests are protected at various levels, the

Board plays the prominent role as the securities market's primary regulator.

Currently, secondary market transactions go through three distinct stages: trading, clearing, and settlement. Trading platforms are provided by stock exchanges. Clearing houses act as intermediaries to make transaction confirmation, settlement, and delivery easier. They determine obligations of trading members in terms of funds and securities and ensure that trades are settled through the exchange of obligations thus facilitating transaction confirmation, settlement, and delivery. Present List of Stock Exchanges include BSE Ltd. and National Stock Exchange of India Ltd. as the main exchanges. There are other exchanges specifically for commodities and specific stocks of foreign jurisdictions.

Commodity Derivative Exchanges

Commodity derivatives exchanges are deemed to be recognised stock Exchanges under the Securities Contracts (Regulation) Act, 1956 (SCRA). (Section 131 of Finance Act, 2015). However, specific permission of SEBI is a prerequisite to carry out any activity other than the activities of assisting, regulating or controlling the business of trade in commodity derivatives

Trading, Clearing and Settlement System

1997 saw the introduction of a security lending arrangement, which paved the way for short selling. During the year, a system of warehousing was also permitted by SEBI for firm orders of institutional clients. The SEBI subsequently implemented a dematerialization system in 1999, making its use obligatory for trades conducted by institutional investors in specific scrips. In order to bring the advantages of online systems for the secondary market to the primary markets, a system has been developed for the marketing of initial public offerings called the Online Securities Offer Systems.

There are seven clearing organisations, viz. India International Clearing Corporation (IFSC) Ltd., Indian Clearing Corporation Ltd., Metropolitan Clearing Corporation of India Ltd., Multi Commodity Exchange Clearing Corporation Ltd., National Commodity Clearing Ltd., National Securities Clearing Corporation Ltd. and NSE IFSC Clearing Corporation Limited

Furthermore, clearing banks and depositories provide the interface required between custodians and clearing members for the settlement of obligations of funds and securities.

A depositories law was promulgated in the year 1996 resulting in establishment of National Securities Depository Limited (NSDL) as the first depository of India. NSDL was incorporated in December 1995 after promulgation of Depositories Ordinance in September, 1995. The body was sponsored and endorsed by distinguished organisations like IDBI, NSE and UTI. Depositories aid in investor protection, provide support to brokers and smoothen the process by making use of innovative and hassle-free technology. Central Depository Services (India) Limited is the second depository in India. Subsequently, promoted by BSE in close association with some of the leading banks of India CDSL officially began business in the year 1999.

Credit Rating System

Credit rating agencies assess the creditworthiness of businesses, evaluate their ability to repay debts, and provide an organisation-wide credit risk rating. Credit rating agencies in India are governed by the Credit Rating Agencies (SEBI) Regulations, 1999. Investors are able to base their decisions on independent assessments by utilising credit ratings offered by agencies as part of a review of the financial health of business units. As on date there are seven credit rating agencies registered with SEBI.

Technological evolution altering risk and reward

The advancement of technology has had a considerable impact on the activities of various actors in the capital market, including regulators, exchanges, depositories, intermediaries, investors, and others. These shifts are the outcome of a confluence of events and conditions. The goal of regulators and policymakers is to create an environment that is conducive to reaping the benefits brought about by the digital revolution while simultaneously minimising the risks associated with it. In addition, important shifts in the security industry are being driven by advances in technology such as big data, robotic process automation, artificial intelligence, and other innovations of a similar nature. The SEBI has previously developed a reporting framework for the application of artificial intelligence in trading systems with an eye towards its potential future use. This was done with the goal of facilitating its eventual adoption.

The virtually instantaneous rate at which transactions based on a stimulus can be finalised is disruptive to the activities of other investors to their monetary detriment. No human intelligence can equal the speeds that can be achieved via the application of artificial intelligence and robotic process automation. For investors without access to technological resources, the current evolutionary movements present a number of warning indicators. On one hand, technology has made trading easier and efficient, but on the other, it makes trade more open to manipulation and widens the information gap between buyers and sellers. This is analogous to how every coin has two sides. The application of technology permits the development of algorithmic trading models. These models can evaluate vast amounts of data, make investment decisions, automate those decisions, and execute them at an extremely rapid rate. As the capacity of computers and the number of humans engaging in these markets continue to develop substantially, the financial markets are becoming associated with increasingly complex and novel threats.

Conclusion

The capital market has travelled a tremendous distance to attain its current position, which is an accomplishment in and of itself. The expansion of India's financial markets in recent years may be somewhat attributable to the country's GDP rate, which has been rising significantly. Due to the inherent hazards connected with trading on the stock markets, however, a significant proportion of potential investors choose not to participate in this activity. In addition, the ordinary individual has minimal exposure to the market for debt instruments. The awarding of tax incentives for mutual fund investments is one of the numerous initiatives the government has implemented as part of a bigger effort to encourage more individuals to participate in the stock market. This endeavour has been ongoing for a while. It is certain that the securities market will expand at some time in the future as more individuals feel comfortable with the notion of participating in the stock market. At the same time, technological advancements are driving a great deal of change and will continue to have a significant impact on the evolution of future markets. This will be the situation for the foreseeable future. Because to technological advancements, trade has become speedier and efficient. As a result of these developments, however, trading has grown more prone to manipulation and information imbalance. However, because technological progress occurs on a regular basis, advancements in this sector and robust regulatory procedures will make it possible for this trading approach to become safer and more profitable. This is because technological innovation occurs regularly.

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