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EMERGING TRENDS IN STOCK MARKET IN INDIA

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ABSTRACT

SEBI has laid down strict guidelines by prescribing norms for handling information which may specifically be considered for all intents and purposes sensitive, which is quite significant. In 1996, the Depository Act mostly was passed, allowing the dematerialization of securities and the transfer of securities through electronic book-keeping to essentially really reduce settlement risks and infrastructure bottlenecks. The dematerialized securities will not really have any identification numbers or distinctive numbers. Today, opening a demat and trading account is generally simple as visiting a web page, providing personal details pertinent to opening the account, and clicking “submit” button. In recent years, SEBI for the most part has significantly increased surveillance and enforcement measures against intermediaries who for all intents and purposes violate laws, especially with regard to price manipulation. Brokers are required to have a dual registration both with SEBI and with Stock Exchange. A new system called Badla was developed which Carry forward trades to the settlement period. The NSE and the BSE recently launched trading in derivatives which involves trading in futures and options. SEBI had to keep FIIs under its control for the sake of protecting investors. Share buyback is a strategy used for restructuring a company's share capital and increasing the value of its shares. BSE introduced online computerized trading of scrips that replaced manual trading practices.

INTRODUCTION

The stock market refers to public markets that exist for issuing, buying, and selling stocks that trade on a stock exchange or over-the-counter. Stocks, also known as equities, represent fractional ownership in a company. The stock market is a place where investors can for the most part buy and essentially sell ownership of such investible assets. An efficiently functioning stock market is considered critical to economic development, as it gives companies the ability to quickly access capital from the public.

The stock market serves two very important purposes in a kind. The first is to provide a sort of capital to companies that they can use to fund and generally expand their businesses. If a company issues one million shares of stock that initially mostly sell for Rs 10 a share, then that provides the company with Rs 10 million of actually capital that it can use to mostly grow its business. By offering shares instead of borrowing capital needed for expansion, the company avoids incurring debt and paying interest charges on that debt. The secondary purpose the stock market serves is to give investors – those who purchase generally stocks – the opportunity to share in the profits of publicly-traded companies. Investors can profit from stock buying in one of two ways. Some stocks pay regular dividends. The sort of other way investors can profit from buying stocks is by selling their stock for a profit if the stock price increases from their purchase price. For example, if an investor for the most part buys shares of a company's stock at Rs 10 a share and the price of the stock subsequently rises to Rs 15 a share, the investor can then for the most part realize a 50% profit on their investment by selling their shares.

INSIDER TRADING

Insider trading has for all intents and purposes become an extremely sensitive and controversial subject in the stock market in India in a significant way. Any person in power whether an officer or director who had access to information of kind of private matters of the company relating to expansion programs of the company, changes in policies, amalgamations, generally joint contracts, collaboration or any information about its financial results really was making basically full use of his position to give an advantage to relatives, friends or known persons by leaking out information leading to frauds and rigging of price relating to securities. Insider Trading Regulations in 1992 notified by SEBI prohibites insider trading, as it is unfair upon investors. Persons who posses price sensitive information because they actually have connections with a company take advantage of the situation to ups and downs of prices of securities to their advantage. SEBI specifically has laid down strict guidelines by prescribing norms handling information which may specifically be considered for all intents and purposes sensitive. Price forecasts, changes in investment plans, knowledge of mergers and acquisitions, information about contracts essentially are not to be disclosed. The staff and officers who particularly have fairly such actually sensitive information specifically are to for the most part be identified in each company. Controls generally are to for the most part be made on the handling of sensitive information.

PAPERLESS TRADING

In 1996, the Depository Act was passed, allowing the dematerialization of securities and transfer of securities through electronic book-keeping to reduce settlement risks and infrastructure bottlenecks. There are no identification numbers or distinctive numbers for dematerialized securities. The National Securities Depository Ltd. was established in November 1996 for this purpose. Through the elimination of bad deliveries and forgeries of shares and facilitating the transfer of shares, dematerialization of securities is one of the major steps toward improving and modernizing the market and enhancing investor protection. A depository system eliminates physical share certificates. It has many benefits like elimination of risks, eliminates the problems with bad deliveries or fake certificates, provides transfer of securities immediately, provides a demat account with a client identification number and a depository identification number wherein a member has a special identity, elimination of stamp duty associated with the transfer of securities, etc. Additionally, investors had the problem of selling shares in Odd Lots but with the depository system even one share can particularly be sold. Since a depository allows a nomination facility, hence shares can be easily transferred at the time of death of a participant. Change in address recorded with DP gets registered with all companies in which investor holds securities electronically, thus eliminating the need to correspond with each of them separately. Transmission of securities specifically is done by DP eliminating correspondence with companies. Automatic credit into demat account of shares, arising out of bonus, split, consolidation, merger etc, is made possible.

Prior to 1991, all investments, trades, and security purchases for the most part were carried out in physical stock markets, with share certificates being pieces of paper, which upon misplacing, were almost impossible to get back. As a result of this, the market was riddled with failed trades; time related trading issues and fraud that ran very rampant in a major way. All of this, however, came to an end when the Indian Government in 1991 decided to undertake the process of dematerialising all share certificates.

ONLINE OPENING OF DEMAT ACCOUNT

Today, opening a Demat and trading account is as pretty simple as visiting a web page, providing personal details pertinent to opening the account, and clicking “submit” button. Within seconds, you're now the owner of a new demats and trading account that you can use to buy, sell, and hold stocks. Taking it one step basically further is the fact that you can not only do some from the comfort of particularly your home, but you no longer have to be wired into a computer. You can particularly carry out all your trades and have all you’re trading account needs catered to by phone in kind of your pocket. Needless to say, trading today is easier than it was.

SURVEILLANCE ON PRICE MANIPULATION

In recent years, SEBI has significantly increased surveillance and enforcement measures against intermediaries who violate laws, especially with regard to price manipulation. Surveillance departments which co-ordinate with SEBI are available with all the stock exchanges. SEBI has enforced information that must be submitted by exchanges in particular daily settlement and monitoring reports in a really major way. SEBI specifically has also created a database for trading on NSE and BSE. If case of detection of price manipulation, auction proceeds are impounded or frozen so that the manipulator cannot use it. 'Stock Watch', an advanced software introduced by SEBI for surveillance of market activities programmed to show movements from historical patterns through follow-ups by analyst and trained investigators acts as a deterrent to price rigging.

REGULATION OF STOCK BROKERS

In the year 1992, Stock Broker and Sub-brokers Regulation Act were passed. It is mandatory for brokers to have a dual registration with both - SEBI and Stock Exchanges. For violation of laws penal action would be taken against the broker. Capital adequacy norms have been introduced. Among other measures to protect investors, brokers have been disciplined by introducing a system of maintaining separate accounts for clients and brokers, including their own accounts. In addition, they have to disclose transaction price and brokerage separately in contract notes. An audit of books and filing of an auditor's report with SEBI has been made mandatory. SEBI has also extended its regulations to sub-brokers. Sub-brokers must be registered by entering into an agreement with the stock brokers from whom he seeks affiliation. Stock brokers are the only ones through whom a sub-broker can transact business.

CARRY FORWARD POSITIONS

Historically, forward trading has been the main speculative activity in stock exchanges in India as it has been the main speculative activity as a whole. Futures and Options were absent in the Indian Market and Forward Trading was referred to as Contracts for Clearing. This system enables a trader to play with price expectations, transfer outstanding buy or sell positions and delivery of securities. In 1969, Contract trading was banned in India. However, a new system called Badla basically was developed which was used in definitely Carry forward of trades to the settlement period. This system kind of was regulated in 1983 by permitting trade through specified securities and kind of carry forward facility up to 90 days. Controls generally were also set on margins and limits were placed on positions. In December 1993, badla basically was banned. In 1995, it essentially was reviewed by Patel committee and SEBI reintroduced carry forward system with restrictions. 90-day limit essentially was fixed for carry forward, and trade settlements could generally be made in 75 days with delivery. For investor protection exchanges had to adopt a very twin track trading system where transactions for delivery actually were separated from those that were carried forward. Limits were also imposed on for the most part carry forwards positions and on scrip wise limits on brokers. Badla was again reviewed in 1997 by Varma Committee. SEBI increased the carry forward limits of brokers to 20 crores and reduced margins from 15% to 10% and after the Ketan Parekh scam Badla was again banned from July 1, 2001.

DERIVATIVES TRADING

The NSE and the BSE recently launched trading in derivatives which involves trading in futures and options. Derivatives are offered for three expiry dates, one in the first instance, followed by three subsequent months. So in January, Nifty call and put options can be purchased for January end, February end and March end. Generally, the last day of a contract is the expiration date. In an options contract, a premium must be paid to enter into a contract. Losses for the buyer are limited to the amount of premium paid, but his gains are usually unlimited. In establishing these derivatives, SEBI wanted to bring about investor confidence and reduce risk.

REGULATION OF FOREIGN INSTITUTIONAL INVESTORS (FIIS)

FIIs institutions have a considerable amount of funds. By the nature of their trading volumes, FIIs can actually retain control over the stock market. SEBI had to keep FIIs under its control for the sake of protecting investors. Hence, all FIIs had to be registered with SEBI. FIIs having a capital of 100 crores could register themselves as depositories and their procedures would generally be evaluated by an independent agency. The FIIs are also allowed to invest in debt securities, but equity and debt securities need to be in the ratio of 70:30. The FIIs under SEBI mostly include Pension Funds, Mutual Funds, Asset Management Companies, Investment Trusts and Charitable Institutions.

BUY BACK OF SHARES

Buyback of shares is another development of Indian corporate practice. It actually was permitted by SEBI in 1998, following the Companies (Amendment) Ordinance. The buyback of shares is effectively a method of a company purchasing its own shares using its free reserves, securities premium account, or proceeds of other specified securities such as preference shares. Buyback of shares may be done from existing shareholders on a proportionate basis, through actual open market purchases and through company employees where securities are primarily issued under stock options or sweat equity. Share buyback is a strategy used for restructuring a company's share capital and increasing the value of its shares. Through the use of excess funds available with the company, it can also have the effect of allowing the promoters and management to control the company in a more effective manner. A company will announce a buyback when it is confident of the benefits of a buyback and that it will essentially provide shareholders with a greater return.

BOMBAY ON LINE TRADING (BOLT) SYSTEM

BSE was the first exchange to introduce online computerized trading of scrips that replaced manual trading practices. The majority of equity shares in BSE have largely switched from trading in the ring to the BOLT system. From July 1, 1995, the BOLT system has become extremely active and now allows sort of other stock exchanges for instant online trading. The BOLT system provides systematic trading in a growing volume of business. In 1995, the average daily turnover specifically was exceeding 30 crores as there were kind of more than 750 scrips to cope with. This led to delays in transactions as physical movement of share transfers took a long time and in the absence of custodial services, the settlement periods really kept on increasing. The BOLT system provides information on the absolute best buy and sells rates for scripts, pending and executed orders, negotiated and crossed deals, market position of all the scrips of a broker, fairly domestic share indices and market and economy related news, which is quite significant. The online system provides a quote trading facility. The highest buy price and the lowest sale price are the best offers. BSE in addition to Equity Scrips actually has also initiated debt trading since July 1995. The BOLT system basically has an integrated debt trading system and really is different from NSE which definitely has separate segments for fairly wholesale and sort of retail items. BSE has many actively traded debentures on the BOLT system.

Some traders say that electronic trading is definitely better than very open outcry. This is because it gives kind of better access to the marketplace, allowing for sort of more transparency in terms of bids and offers. Also, since it is primarily electronic, traders can look into the history of the market from anywhere they are. In terms of the length of time it takes for trading to occur, electronic trading is generally more time-efficient. What usually minutes in pit trading can specifically be definitely finished in just seconds in electronic trading, which really is quite significant? Electronic trading for the most part makes documented trade records easier to keep. Every order, option, or contract is documented and is accessible from wherever one is. There are no worries about orders scribbled down incorrectly or order sheets getting lost in the shuffle of trading.

CONCLUSION AND FINDINGS

A few years from now, investors could use voice commands to trade in the stock market. Or, all investment kind of advisory could basically be powered by AI/ML with zero or minimal human interaction. While India's capital markets for the most part have seen a fair share of innovation and technology-driven initiatives, the future has a lot in store that will not only make trading easier but also empower investors with more information and domain knowledge while making markets more secure. The Gen Z and millennials are already at specifically ease using gadgets like Alexa, Google Home or mobile voice assistants, which actually is quite significant. If technology and regulatory advancements move in tandem, the coming years could really see trade orders being given by way of voice commands as biometrics in a two-factor authentication. AI algorithms and machine learning will for the most part help computers action the real-world data by inputs through kind of social media feeds, photos and videos, text and voice. Robotic advisory is removing the sort of human interaction from trading and is actually doing the same in the investment advisory space. An individual has to just answer a few queries related to her investment horizon and risk appetite, among really other things, and the AI picks up the definitely the best investment instrument in a matter of seconds. Experts believe the coming years will see a combination of algos and robotic. Algo based trading or robotic advisory based on very superior algorithms kind of have generally much better chances of success as they essentially are much less pretty prone to error. Hence, there actually is going to generally be a fairly much bigger adoption of these services among the masses. There will be a role of humans as well, but it will basically be really limited to the communication part and the systems will predominantly for the most part become an interoperable autonomous vehicle, just like Tesla. There are enough instances in the capital market space as well with broking firms seeing downtime due to technical issues; even stock exchanges actually have witnessed glitches that really have brought trading to a halt. That doesn't literally mean the sort of capital markets will not focus on technology and innovation in a fairly major way. There are risks when you depend on humans, and there essentially are risks when you generally depend on technology. If we hadn't taken risks, we wouldn't essentially have computers today or online trading or even exchanges, which specifically is quite significant. Technological innovation for all is the future.

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