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ORIGINAL ARTICLE

"INDIAN CAPITAL MARKET AND IMPACT OF SEBI"

SHALLU

Assistant professor, Delhi College of Arts & Commerce, University of Delhi
Delhi, India

Abstract:

Present study mainly aims to gain insight into the Indian capital markets and the roles and responsibilities of a capital market regulator. This study also focuses on identifying the loopholes in the Indian financial system. This study consists of role of SEBI in Indian stock market. SEBI is the regulator for the securities market in India. It was formed officially by the Government of India

Being the study descriptive in nature, findings have been made through theoretical analysis in order to know the impact of SEBI on Indian capital market and to provide in-depth analysis of the Indian stock market. It has been found that SEBI has done a lot of work for the development of the Indian capital market.

KEYWORDS:

SEBI, Capital market, Indian capital market, shares, capital market reforms.

INTRODUCTION

The capital market plays a very important role in promoting economic growth through the mobilization of long-term savings and the savings get invested in the economy for productive purpose. The capital market in India is a well-integrated structure and its components include stock exchanges, developed banks investment trusts, insurance corporations and provident fund organization. It caters to the varied needs for capital of agriculture, industrial and trading sectors of the economy. There are two important operations carried on in these markets. The raising the new capital and Trading in the securities already issued by the companies. The capital market deals with capital. Capital Market is generally understood as a market for long term funds and investments in long term instruments available in this market. Capital markets mean the market for all the financial instruments, short term and long term as so commercial industrial and government paper.

The capital market is a market where borrowing and lending of long term funds takes place. Capital market deals in both, debt and equity. In these markets productive capital is raised and made available to the corporate. The governments both central and state raise money in the capital market through the issue of government securities. Capital market refers to all the institutes and mechanisms of raising medium and long-term funds, through various instruments available like shares, debentures, bonds etc.

With the pace of economic reforms followed in India, the importance of capital markets has grown in the last ten years. Corporate both in the private sector as well as in the public sector raise thousands of crores of rupees in these markets. The governments, through Reserve Bank of India, as well as financial institutes also raise a lot of money from these markets. The capital market serves a very useful purpose by pooling the savings. The capital markets encourage capital formation in the country. The capital markets mobilize savings of the households and of the industrial concerns. Such savings are then invested for productive purposes. Capital markets also facilitate the growth of the industrial sector, as well as the other sectors of the economy. The capital markets provide funds for the projects in backward areas. Thus, Capital markets generate employment in the country.

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They also facilitate the development of stock markets. Due to capital markets, the public has alternative sources of investment. The public can invest not only in bank deposits, but also in shares and debentures issued by public companies. The commercial banks and FIs provide timely financial assistance to viable sick units to overcome their industrial sickness. The banks and FIs may also write off a part of loan, or they re-schedule the loan, so as to offer payment flexibility to the weak units, which in turn helps the weak units to overcome financial crisis.

OBJECTIVES

To gain insight into the capital markets in India.
To examine the roles and responsibilities of a capital market regulator.
To Understand the capital market reforms initiated by a regulatory authority and their benefits to the retail investors
To identify the loopholes in the financial system that allows capital market scams to happen and suggest a suitable course of action to avoid them.

LITERATURE REVIEW

L.M.Bhole- “Financial institutions and markets: structure, growth and innovations”
Dealing on many key areas of Indian capital market, capital issue legislations, public issue management and investor guidance. Capital Market Reforms Led to Improvement in Transparency, Reliability and Fairness of Transactions Since 1992, when SEBI became a statutory body, a number of reforms have strengthened SEBI, reinforced its autonomy.

Ashima Goyal- “Regulation and De-regulation of the Stock Market in India”
13th June, 2004 said that liberalization requires de- and re-regulation, since with internationalization government controls become ineffective, and with the use of new technologies the old self-regulation and governance structures break down. The functioning of the reformed Indian regulatory structure is examined in the context of the basic principles of regulation, the special regulatory requirements of capital markets, and the features of Indian markets.

N.Goplasamy-“Capital issues and SEBI guidelines: including project management & project finance” This circular is issued in exercise of powers conferred under Section 1 1 [1] of the Securities and Exchange Board of India Act, 1992, read with the provisions of regulation 77 of SEBI [Mutual Funds] Regulations, 1996, to protect the investors.

RESEARCH METHODOLOGY

Research methodology of this study consists of following procedures:

Research Design: Being the study descriptive in nature, it will go through theoretical data collection, and its analysis.

Source of Data: This study is mainly based on secondary data has also been gathered from various newspapers, journals, magazines and websites for this purpose to know insights about the Indian capital market and the Impact of SEBI on Indian capital market.

Research Method: Study is based on sampling not the census method which limits its universality.

Types of Stock Market in India

India's economy, although still considered developing, is becoming one of the biggest in the world. This is due largely to the country's technical prowess and attractiveness to overseas countries looking to outsource. The country has a number of stock exchanges on which investors who wish to capitalize on India's growth story can invest their money.

1.BOMBAY STOCK EXCHANGE

The Bombay/Mumbai Stock Exchange is India's oldest. Commonly called the BSE, it was established in 1875 and includes more than 6,000 stocks. The BSE is the largest stock exchange in South Asia and is rapidly becoming one of the biggest in the world due to India's economic growth. The most commonly watched BSE index is called the sensitive index, or Sensex, of 30 large stocks

2.NATIONAL STOCK EXCHANGE

The National Stock Exchange, also located in Bombay/Mumbai, is India's other dominant stock market along with the BSE. The rapidly growing exchange was founded in 1992. The NSE and BSE are responsible for the vast majority of trading volume in India. The NSE's best-known index is the S&P CNX Nifty, which comprises the stocks of 50 large companies.

3.OTHER STOCK EXCHANGE

Although the NSE and BSE are the two largest stock markets in India, there are a total of 22 stock exchanges in the country. They are located in other large Indian cities including Ahmedabad, Bangalore, Calcutta, Chennai and Delhi. There is also an over-the-counter stock exchange in India that is used to invest in smaller companies.

4.FOREIGN INVESTING IN INDIA

Foreign investments in India used to be harder to come by, but the country has recently opened things up. India, along with China, is believed to have ample economic growth potential. As a result, a number of U.S.-based mutual funds and exchange traded funds have now been created that allow investors to participate in India's stock market.

5.REGULATORY BODY

Funds that invest in India must register with the Securities and Exchange Board of India (SEBI), which is India's answer to the U.S. Securities and Exchange Commission. The SEBI is located in Bombay, the site of the country's major stock exchanges. It was founded in 1992 with a mission to "protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto."

Role of capital markets in an economy

Provides an important alternative source of long-term finance for long-term productive investments. This helps in diffusing stresses on the banking system by matching long-term investments with long-term capital.
Provides equity capital and infrastructure development capital that has strong socio-economic benefits - roads, water and sewer systems, housing, energy, telecommunications, public transport, etc. - ideal for financing through capital markets via long dated bonds and asset backed securities.
Provides avenues for investment opportunities that encourage a thrift culture critical in increasing domestic savings and investment ratios that are essential for rapid industrialization.
Encourages broader ownership of productive assets by small savers to enable them benefit from India's economic growth and wealth distribution. Equitable distribution of wealth is a key indicator of poverty reduction.
Promotes public-private sector partnerships to encourage participation of private sector in productive investments. Pursuit of economic efficiency shifting driving force of economic development from public to private sector to enhance economic productivity has become inevitable as resources continue to diminish.
Assists the Government to close resource gap, and complement its effort in financing essential socio-economic development, through raising long-term project based capital.
Improves the efficiency of capital allocation through competitive pricing mechanism for better utilization of scarce resources for increased economic growth.
Provides a gateway to India for global and foreign portfolio investors, which is critical in supplementing the low domestic saving ratio

Securities and Exchange Board of India (SEBI)

SEBI is the regulator for the securities market in India. It was formed officially by the Government of India in 1992 with being passed by the Indian Parliament. Chaired by C B Bhave, SEBI is headquartered in the popular business district of Bandra-Kurla complex in Mumbai, and has Northern, Eastern, Southern and Western regional offices in New Delhi, Kolkata, Chennai and Ahmedabad.

SEBI has to be responsive to the needs of three groups, which constitute the market:

the issuers of securities
the investors
the market intermediaries.

SEBI has three functions rolled into one body quasi-legislative, quasi-judicial and quasi-executive. It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders in its judicial capacity. Though this makes it very powerful, there is an appeals process to create accountability. There is a Securities Appellate Tribunal which is a three-member tribunal and is presently headed by a former Chief Justice of a High court - Mr. Justice NK Sodhi. A second appeal lies directly to the Supreme Court. SEBI has enjoyed success as a regulator by pushing systemic reforms aggressively and successively (e.g. the quick movement towards making the markets electronic and paperless rolling settlement on T+2 basis). SEBI has been active in setting up the regulations as required under law. SEBI has also been instrumental in taking quick and effective steps in light of the global meltdown and the Satyam fiasco. It had increased the extent and quantity of disclosures to be made by Indian corporate promoters. More recently, in light of the global meltdown, it liberalized the takeover code to facilitate investments by removing regulatory strictures. In one such move, SEBI has increased the application limit for retail investors to Rs 2 lakh, from Rs 1 lakh at present.

Capital market requires many intermediaries who are responsible to transfer funds from those who save to those who require these funds for investments. The efficiency of the markets is dependent on the specialization attained by these intermediaries. Some of them are as follows:

1. Stock Exchanges.
2. Banks.
3. Investment Trusts and Companies.
4. Specialized Financial Institutions or Development Banks.
5. Mutual Funds.
6. Non-Banking Financial Institutions.
7. International Financial Investors and Institutions

The Regulator

The Indian economy was liberalized in 1991. In order to achieve the full potential of liberalization and enable the Indian stock market to attract huge investments from foreign institutional investors (FIIs), it was necessary to introduce a series of stock market reforms.

SEBI's efforts to boost investments in the capital markets faced a severe setback in 1992 when Mehta's illegal activities led to a stock market scam. Mehta had managed to obtain huge funds from top banks and financial institutions in India, including State Bank of India, Stanchart, National Housing Bank, Citibank and ANZ Grindlays, to manipulate stock prices, which rose significantly. Between September 1991 and April 1992, the BSE index went up by 143%. However, when the prices crashed, several small investors lost their hard-earned money. The amount involved in this crisis was approximately Rs.54 bn. SEBI's inefficiency in regulating the markets was brought to light for the first time. A journalist commented, "Harshad Mehta in 1992 had caught the SEBI napping"

The Setback

In the mid-1990s, another incident happened, which had a negative impact on SEBI's reputation. In 1995, Pawan Sachdeva, the Managing Director and a major shareholder in a shoe manufacturing company - MS Shoes was alleged to have rigged the prices of his company's shares. MS Shoes launched a public issue of Rs 4.28 bn in February 1995 at Rs 199 per share. Simultaneously, the company had also planned to have a rights issue totaling Rs 2.71 bn. The company went for an advertisement campaign just before the public issue, highlighting that the share offered to the public at Rs. 199 was at a steep discount as compared to the existing market price of Rs 505 on the BSE...

The Reformer

In spite of the setbacks faced by SEBI, it continued its efforts to introduce more capital market reforms in India, making the markets an attractive investment destination for FIIs. According to SEBI, a significant increase was witnessed in the volume and amount of stock transactions done on BSE and NSE. In the fiscal 1993-94, the average amount of total transactions per day was valued at Rs 8 bn, which had increased ten fold to Rs. 80 bn in 1998-99...

The Crash

SEBI's role as a regulator of Indian capital markets was once again questioned on March 02, 2001, when the BSE index crashed by 176 points. This was the result of the large position taken by a stockbroker - Ketan Parikh (KP) in ten stocks, popularly known as K10. The companies in which KP held high equity stakes included Amitabh Bachchan Corporation Limited, Mukta Arts, Tips, Pritish Nandy Communications, HFCL, Global Telesystems, Zee Telefilms, Crest Communications and PentaMedia Graphics. He had huge exposures in these stocks, which required a lot of money. Reportedly, KP borrowed from various companies and banks for this purpose...

The Reasons

Analysts felt that the major reason for SEBI's failure to protect investors against scams was lack of skilled human capital. For instance, they quoted the example of the KP scam in which KP had taken huge positions in ten stocks. In spite of SEBI possessing this information, it could not gauge KP's vested interests in acquiring these huge positions and his illegitimate plans...

Restoring Investor Confidence

In a poll conducted in early 2002 by Equity Master, an equity research company in India, over 90% of the respondents believed that the regulatory environment was not sufficient to protect the rights of retail investors in India. Bajpai realized that SEBI had to change this belief of retail investors. He said, “Restoring the confidence of retail investors in the market will be an important task of SEBI." Bajpai decided to achieve this objective by focusing on investor education, corporate governance, transparency and enforcement of regulations

Abstract. The case discusses the role played by the Securities and Exchange Board of India (SEBI) as a regulator of Indian capital markets. The case discusses in depth the capital market reforms initiated by SEBI. In spite of these reforms and increasing regulatory powers over the years, SEBI has been largely unsuccessful in controlling capital market scams. The case examines the strengths and weaknesses of SEBI as a regulatory organization. It describes the recent initiatives by SEBI to promote investor education and corporate governance, transparency and abidance of regulations among corporates.

Issues

Examine the roles and responsibilities of a capital market regulator» Understand the capital market reforms initiated by a regulatory authority and their benefits to the retail investors» A Identify the loopholes in the financial system that allows capital market scams to happen and suggest a suitable course of action to avoid them» Appreciate the complexity of a growing market like China » Discuss the future of Indian capital market and the role of SEBI » Appreciate the complexity of a growing market like China » Discuss the future of Indian capital market and the role of SEBI.

GROWTH IN VOLUME INDEX OF NSE AND BSE IN LAST ONE DECADE

Savings and investment are two key macro variables which play a significant role in economic growth. Global emerging economies are experiencing record savings at a time when the developed world has been witnessing a decline in gross domestic saving rates. Needless to say over here, that the best way to streamline the savings is through long-term investments in the equity markets by funding the corporate growth story. Over the past decade, India's GDP has almost trebled from $414 billion in 2001 to $1.3 trillion in 2010. This growth in the size of the country's economy has been more than complimented by a dramatic 8-fold surge in the market capitalization of the Indian companies from $165 billion in 2001 to $1.3 trillion in 2010. However, it does not mean that this manifold rise in the equity markets and its turnover has been consistent with the increase in the market development and penetration.

NSE tops the List of Turnover across Stock Exchanges. The total number of active regional stock exchanges across India has come down from 16 at the start of the decade to 4 in 2008-09, including 2 national exchanges. Moreover, National Stock Exchange's share of total turnover across stock exchanges has surged dramatically from 61.53% in 2001-02 to 92.52% in 2008-09. Apart from NSE and BSE, the only two stock exchanges that are active are Calcutta Stock Exchange and Uttar Pradesh Exchange as per 2008-09 data.

Mumbai Accounts for More than Half the Turnover Almost 80% of the NSE's turnover in India continues to come from the top 5 cities of Mumbai, Delhi, Kolkata, Ahmedabad and Chennai as on 2008-09. In fact, the financial capital of India – Mumbai – accounts for more than half the total NSE turnover at 55%; beating Delhi, the second largest turnover roller with a market share of 14.97%, by a huge margin.

Market Penetration: 2001 to 2009 City-wise Distribution of Turnover (Cash Segment) (in %)

BSE				NSE			
City	2001-02	2004-05	2008-09	City	2001-02	2004-05	2008-09
Mumbai	84.01	75.33	72.4	Mumbai	40.2	47.39	55.85
Ahmedabad	0.97	3.14	4.76	Delhi	19.4	14.92	14.97
Rajkot	0.32	1.71	3.76	Kolkata	9.15	12.46	9.24
Delhi	1.31	3.05	2.85	Ahmedabad	2.49	2.91	5.27
Jaipur	0.23	0.74	0.86	Chennai	3.56	2.88	1.97
Sub-total	**86.84**	**83.97**	**84.63**	**Sub-total**	**74.8**	**80.56**	**87.3**

This is an indication as to how geographically concentrated is the investor community situated in the major canters' of the country; thus providing ample scope for market penetration in rural and town areas.

Low Direct Participation in the Equity Markets

Despite the Indian economy growing at a scorching pace of 8.5% of the GDP and the global funds increasingly eyeing the structural story of India; the direct participation of the retail investors in India's equity markets is only 1.4% of the population – pointing towards woefully low financial inclusion in the huge domestic growth story.

India and the World: Direct Participation in Equity Markets

	Demat Accounts in Million	Population in Million[13]	Demat/Population (in %)
India[7]	16.8	1,173	1.4
China[8]	125	1,330	9.4
Russia[9]	3	139	2.2
South Korea[10]	3.55	48	7.4
Uk[11]	10	61	16.4
USA[12]	54.8[14]	310	17.7[15]

Other emerging economies such as China and South Korea boast of a higher direct participation to the extent of 9.4% and 7.4% from the retail public in their respective stock markets.

Top 10 Companies Rule the roost on the Bourses

Almost 29% of the exchange volumes in 2009 were concentrated in the top 10 companies of India. In most other major economies like China, Taiwan, Japan and Korea the same stood below 20% for top 10 companies in their respective countries.

Concentration Comparison Across Asia: 2009.

Country	Exchange	Turnover of top 10 companies to total
India	BSE	29.3%[1]
	NSE	28.2%
China	Shanghai SE	12.9%
	Shenzhen SE	11.4%
Taiwan	Taiwan SE	21%
Japan	Tokyo SE	19.6%
Korea	Korea Exchange	19.2%

Source: World Federation of Exchanges 2009 & [1]2008

Thus, there is still little room for the lagging Indian companies to grow at a higher speed and, consequently, notch higher turnover on the bourses in a bid to facilitate higher inclusiveness in terms of exchange turnover, away from being dominated by the top 10 companies.

WHY INDIAN STOCK MARKET IS BOOMING OR POTENTIAL IN INDIAN STOCK MARKET

India Financial Market helps in promoting the savings of the economy - helping to adopt an effective channel to transmit various financial policies. The Indian financial sector is well-developed, competitive, efficient and integrated to face all shocks. In the India financial market there are various types of financial products whose prices are determined by the numerous buyers and sellers in the market. The other determinant factor of the prices of the financial products is the market forces of demand and supply. The various other types of Indian markets help in the functioning of the wide India financial sector. Having fallen along with other world markets during last year's crash, it actually bucked the global trend and was nowhere near testing its multi-year lows. And on Monday, Indian shares hit a 25-month high.

India's stock market returns over the past couple of years have actually beaten most other global markets. And with good reason…

While it's still classed as an emerging market, India's strength comes from the fact that its internal market is not only huge, but also better insulated than China, Brazil, Russia and South Korea. It operates at its own pace, seemingly oblivious to what happens around it.
With a population of over one billion, India has a huge edge over smaller emerging markets because it has the critical mass to withstand minor shocks to the system.
India isn't reliant on a huge export market for the bulk of its growth.
It has a huge, educated middle class. In fact, India's middle class population is larger than that of the entire United States. Of course, this middle class earns less on average than poverty line families in America, but it has the capacity to spend enough money to buy products that were once considered luxuries (washers/dryers, TVs, cars, etc). This generates tremendous economic activity without the issues of trade balance.
Because of India's protectionist business nature, companies tend to thrive without the threat of multi-national competition.

But this isn't all that India has in its favor…

Infrastructure Boom Spells Profits for India's Construction Giants

Along with a growing export market, India is also in the midst of a multi-hundred billion-dollar infrastructure boom. The investment potential within the infrastructure sector is enormous. Companies like

Larson & Toubro dominate the construction and infrastructure markets and are very well positioned to profit from the increased spending. And while there are obviously a huge number of foreign companies that operate in India, they have to deal with the unpredictability of a market that is open, yet closed. For Indian firms, however, the sky is the limit. The home-grown successes of Tata Motors (NYSE: TTM), Reliance Capital and Mittal, before it became international steel giant, Arcelor-Mittal (NYSE: MT), have allowed them to build up huge war chests of cash. They're now re-deploying it into the relatively young Indian export market.

The Insider's Look At India's Growth Potential Later this year, I'll be leading another investment expedition to India to explore some of these opportunities first-hand. Our group will be small and we'll meet with top executives of the top companies. On our last trip, for example, we met with firms in the huge entertainment sector, The fastest-growing bank, companies in the manufacturing sector… and the world's largest information technology outfit, Infosys Technologies (Nasdaq: INFY). We even took a personal tour of its massive campus and just a single investment in the company's stock would have paid for the trip several times over.

DERIVATIVES MARKET

A significant development in the Indian stock market during recent years (2000-01) has been the introduction of trading in equity derivatives at the stock exchanges. Derivative product which are permitted to be transacted include both options and futures on both equity' index and on individual stocks. Thus, there are four equity derivative products available in Indian stock markets. The introduction of trading in equity derivatives was recommended by the L. C. Gupta Committee on derivatives, primarily to provide hedging facility against market risk to the equity holders. Besides, it will also increase the efficiency and liquidity of the cash market in equities through arbitrage transactions.

The term derivative indicates that it has no independence value of its own. Its value is derived from' the value of some other asset, particularly a financial asset. Derivatives are broadly classified into futures and options. Future Contracts are agreements to buy or sell a fixed number of a particular security for, delivery at a- fixed date in the future at a fixed price. It involves indefinite purchase or sale at a future date. The price at which the security will be transacted in future is decided at the time of entering the future contract. At National Stock Exchange and Bombay Stock Exchange, future contracts at one month, two-month and three-month period are allowed and the same expire on the last Friday of the month concerned. Both the parties are required to fulfill the terms of the contract.

Options contracts are contracts, which give the holder the right (but not the obligation) to buy or to) sell securities at a pre-determined price within or at the end of a specified period. Expiration date is the day on which the option contract matures. The right to buy is called the call Option and the right to sell is called the put Option. The price at which an option can be exercised is called the exercise price. The person who buys (a put option or a call option, i.e. the right to sell or to buy respectively) is called the buyer of the option. The other party which provides this option to the option buyer is called the option writer. The buyer of option (who is also called as option holder) has to pay option premium to the option writer for acquiring the right. The premium is a onetime outflow for the buyer of options. The buyer of 'an option is not under an obligation to buy or 'sell at the exercise price. .He will do so, if it is beneficial to him, otherwise 'he would like the option to lapse.

LOOPHOLES IN INDIAN STOCK MARKET

Almost every successful stock trader has learned ethical ways of how to hack the stock market. Not hack the stock market in illegal terms, but finding ethical ways to take advantage of certain stock loopholes. Taking advantage of market loopholes is one of the most common traits among the high achievers in trading stock.

However, if you don't do it properly you may find yourself frustrated with your lack of results. In this article, I will discuss with you the most common mistakes stock traders make when learning how to use market loopholes to their advantage.

1. They don't properly prime themselves on the trading market.

There is a wide range of stock traders, ranging from novice to intermediate, to advance. Learning how to hack the stock market, novices must learn the real truth of the market rather than academic fluff. The real truth as in other forces that influence the price of a stock. While advanced traders may need to rethink what they think they know.

2. They don't look for loopholes.

Think of loopholes as a flaw in the system that is not caused by natural market forces that very occasionally pushed the price of a specific stock lower or higher. For example, it could be a group of traders acting from emotions or certain news that came out in the media, etc.

3. They don't calculate a fair price per share.

It is critical to know how to value any share of stock. Most investors are very bad in valuing stocks and tend to buy stocks overpriced. To get the most return on investment when learning how to hack the stock market you must learn to buy stocks at a bargain. Most importantly, learning the criteria of picking a bargain stock

4. They don't follow a proven system for plan.

When you know how to hack the stock market, you will not achieve maximum success until you formulate a system or plan that put it all together. A plan that includes, But not limited to, when to sale, when to buy, stop loss positions, triggers and most importantly what to buy. A trader can run into many mistakes that cause him/her to lose money if they do not know properly learn about the stock market and take advantage of market loopholes. If you do not want to find yourself frustrated with your lack of results, learn from the four common mistakes mentioned above

CONCLUSION

Stock market is considered as most suitable investment for the common people as they can invest their money into the diversified managed portfolio at relatively low cost. It may be concluded that due to number of reforms, the capital market of India has developed a lot, it has made it possible to compare Indian capital market with the international capital market. SEBI is doing a lot of work for the development of capital market. It has brought greater transparency in the affairs of organizations and stock exchanges, though not to the optimum mark. Still the investor doesn't have hundred percent confidence in capital market. It seems that SEBI worked slowly in transforming Indian stock market into a globally competitive and contemporary market.

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SHALLU
Assistant professor, Delhi College of Arts & Commerce, University of Delhi , Delhi, India