REVIEW OF LITERATURE

The financial markets, especially the stock markets, for developing and developed markets have now become more closely interlinked despite the uniqueness of the specific markets or the country profile. Literature has shown strong interest on the linkages among stock markets and the interest has increased considerably after the loose of financial regulations in both mature and emerging markets, the technological developments in communications and trading systems, and the introduction of innovative financial products, creating more opportunities for international portfolio investments. The interest can also be attributed to the globalization which gives another impetus to the higher intertwinement of international economies and financial markets. In recent years, the new remunerative emerging equity markets have attracted the attention of international fund managers as an opportunity for portfolio diversification. In Journal “Price Discovery and Volatility on NSE Futures Market” by Raju M. T and Karande Kiran in year 2003. It intensifies the curiosity of academics in exploring international market linkages. Earlier studies by Blennerhassett, M. and Bowman, R.G., 1999, generally find low correlations between national stock markets, supporting the benefits of international diversification. In International Journal “Commerce and Business Management” by Dr Holani H.K. The links between national stock markets have been of heightened interest in the wake of the October 1987 international market crash globally. The crash has made people realize that various national equity markets are so closely connected as the developed
markets like the US stock market exert a strong influence on other markets. Applying the vector autoregression models, Eun and Shim (1999) find evidence of co-movements between the US stock market and other world equity markets. Cheung and Ng (2000) investigate the dynamic properties of stock returns in Tokyo and New York and find that the US market is an important global factor from January 1985 to December 1999. Madhusoodanan, TP and Thiripalraju (1999) examine the effect of the October crash and conclude that national stock markets became more interrelated after the crash and find that the co-movements among national stock markets were stronger when the US stock market is more volatile. Emerging Markets Finance and Trade publishes (2009) Journal on financial and economic aspects of emerging economies. Applying the VAR approach and the impulse response function analysis, Jeon and Von-Furstenberg (2003) show that the degree of international co-movement in stock price indices has increased significantly since the crash. On the other hand, Koop (1999) uses Bayesian methods to conclude that there are no common trends in stock prices across countries. Also, Corhay, et al (2001) study the stock markets of Australia, Japan, Hong Kong, New Zealand and Singapore and find no evidence of a single stochastic trend for these countries.

The development of the securities market received a tremendous boost with the increasing number of stock exchanges opened in the country. Before there were only 9 stock exchanges in the country. **U.P. Stock Exchange** was the 10th stock exchange. In fact, the first Indian stock exchange established in Mumbai is the oldest exchange in **Asia**. At present there are 22 stock exchanges located in various parts of **India**.
exchanges of Mumbai, Kolkata, Chennai, Ahmedabad, Delhi, Hyderabad, Indore and Bangalore have been granted permanent recognition.

The stock exchanges have organised themselves either in the form of a public limited company or a company limited by guarantee or as a voluntary non-profit making association. The rules or articles of association defining the construction of the recognised stock exchanges are approved by the Central Government. There is uniformity in their organisation.

Stock exchanges are regulated by SEBI and ministry of finance (department of economic affairs) and their working is controlled by the board of directors which are elected as well as nominated by the government and the SEBI. Stock exchanges may be expected to meet the challenges efficiently and take necessary steps to promote investment climate in the country and protect the interests of investors and take action against the persons defaulting its law.

The need for setting up independent Government agency to regulate and develop capital market in India as in many developed countries, was recognised since the seventh five year plan was launched in 1985 when some major industrial policy changes like opening up of the economy to outside world and greater role to the private sector was initiated. The rampant mal-practices noticed in the securities market stood in the way of infusing confidence of investors which is necessary for mobilisation of large quantity of funds from the public and to help the healthy growth of Indian securities market.
Before the establishment of SEBI there was no effective control over the different segments of the Indian stock market. After the setting up of the Securities and Exchange Board of India (SEBI), Indian securities market has witnessed a number of reforms for the protection of the interests of investors, smooth operation and functioning of stock exchanges, regulation of different players of the primary and secondary markets. In fact, during the latter part of the decade of nineties (90es) the Indian stock market has undergone tremendous changes in its working to compete with international standards.

The Government of India set-up the Securities and Exchange Board of India (SEBI) in April 1988. For more than three years, it had no statutory powers. Its interim functions during the period were (i) to collect information and advise the government on matters relating to stock and capital markets, (ii) licensing and regulation of merchant bankers, mutual funds, etc., (iii) to prepare the legal drafts for regulatory and development role of SEBI and (iv) to perform any other function as may be entrusted to it by the government. It was given statutory status by promulgation of SEBI ordinance which has since become an Act of Parliament under the SEBI Act. The objectives of setting up SEBI are (i) to protect the interests of investors in securities, (ii) to promote the development of securities market, and (iii) to regulate the securities markets. The process of reforms in the capital market including the money market was further strengthened during 1995-96. The Securities Laws (Amendment) Act empowered SEBI to regulate all market intermediaries. The SEBI Act, 1992 as amended on March 15,
1995 by the Securities Laws (Amendment) Act, 1995 has empowered SEBI to register and regulate new intermediaries in the securities market such as custodians, depositories, venture capital funds, credit rating agencies and foreign institutional investors. With this empowerment, all intermediaries associated with the securities market are now regulated by SEBI. Additional power was given to SEBI to prescribe regulations related to the issue of capital and transfer of securities. SEBI's independence was strengthened by allowing it to issue regulations and file suits without the prior approval of the central government. SEBI has also been empowered to impose monetary penalties for a wide range of violations, and accordingly the SEBI Act provides for adjudication and empowers SEBI to appoint adjudicating officers. The amended Act also envisages the establishment of securities appellate tribunal to be set up by the government to hear appeals against monetary fines imposed by the adjudicating authority.

In 1980-81 the annual new capital formation was only Rs. 150 (One fifty) crore, whereas today it is above Rs. 50,000 (fifty thousand) crore. There were only six million shareholders, today the number has reached one hundred ten (110) million. It is expected that stock exchanges, financial institutions and stock brokers will all make their best efforts to achieve the target of mopping up Rs. 1,00,000 crore per year in the country in the near future. Market capitalization of BSE stood at Rs. 30, 22,190 crore and at NSE Rs 28,13,201 crore as on March 31, 2006. 882 foreign institutional investors (FIIs) were registered with SEBI as on March 31, 2001.