

SYNOPSIS

PAPERLESS TRADING IN INDIAN STOCK MARKETS

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INTRODUCTION:

The stock exchange is an organized market for the purchase and sale of listed industrial and financial securities. Stock exchanges or secondary market is essentially a match maker between subsequent buyer & seller and it doesn't deal in new securities. Thus stock exchange is not a place for origin of securities rather it is a place for their subsequent trading. Stock exchanges in India is defined and regulated under the Securities Contracts (Regulation) Act 1956 and it is defined as, "an association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities".

Indian Stock Markets are one of the oldest stock market in Asia. Its history dates back to nearly 200 years ago. The earliest records of security dealing in India are meager and obscure. Traditionally stock exchanges have been associated with specific locations, however of late the concept of non-location specific stock exchanges has gained huge prominence with the setting up of National Stock Exchange (NSE) and Over the Counter Exchange of India (OTCEI). Presently there are 24 stock exchanges in India including the NSE and OTCEI, 20 of them being regional ones with allocated areas. The National Stock Exchange (NSE), Over the Counter Exchange of India (OTCEI) and Inter Connected Stock Exchange of India Limited (ISE) are the three stock exchanges in the country that have mandate to nation wide trading networks. Through the process of consolidation today, many regional stock exchanges have started aligning themselves

with one or more stock exchanges. Thus, at present there are totally twenty one recognised stock exchange in India. But one noticeable fact is that due to dematerialisation the Indian Stock Markets have grown.

BSE is the oldest stock exchange not only in India but it is one of the oldest in Asia. With the emergence of NSE the 'ringless screen based trading' has become very popular although traditionally the stock exchanges trading were called 'ring trading'. Satellite linked computer terminals now facilitate online paperless trading from any corner of the globe.

The present system of dematerialisation was introduced in the Indian stock market in a phased manner. Though initially it was carried out on selected scrips, the entire dematerialisation process was completed in a time bound manner as all the depositories had to strictly adhere to the norms and guidelines set aside by the regulatory authority SEBI (Securities Exchange Board of India) in this direction. The implementation of this system of paperless trading has contributed a great deal towards the integration and growth on Indian stock markets within the nation and with the rest of the world markets.

In short, the Stock Exchanges in India did follow the Traditional trading and settlement procedure till the year 1995. The traditional methodology hindered the growth of the Stock Market and its integration with other International markets. The administration and the regulatory authority followed suit to implement electronic trading and settlement procedure. This was carried out with the enactment of the Depositories Act in 1995. The dematerialisation process was implemented on a phased manner with the establishment of Depositories and the conversion of the registration of the shares from paper form to electronic form. The Depositories Participants were registered, spread and placed across the country. The Dematerialisation was completed in a time bound manner due to the strict compliance norms issued by the concerned regulatory authority SEBI.

Kelly Clifford in his article Brief History of A Brief History of Stock Market Growth and

Expansion has said that the world's first stock exchange was in Italy or in Egypt or even in France, but no matter where they originated, the concept of a place to trade stocks and bonds has taken firm root and stock exchanges are now the cornerstone of our financial marketplace. From the establishment of the first American stock exchange in 1792 in New York now called the New York Stock Exchange to the modern paperless trading has shown tremendous growth potential. The history shows that 1800s were a time of great innovation and growth. The 1900s were the time for industrial revolution and also showed the growth and expansion of share market and associated regulatory agencies. The 1900s also showed the rise of speculators in secondary market which gave birth to stock trading as a profession. This century also witnessed the greatest stock market crashes in history (1929-32, the great depression) which resulted in the people losing their jobs. The stock market crash resulted in regulatory changes and the passing of the Securities and Exchange Commission (SEC) which ensured that such crashes did not happen again in the future.

P. Mohana Rao in his article Dematerialisation has quoted that, in order to protect the investors, the capital market regulator (SEBI) has taken up a series of steps in India. One of the steps is dematerialization shares and securities of shareholders/investors giving more protection to them. Due to many benefits of the system, it became more popular in the capital market in India. It is much improved method over the scrip-based system. This system is more flexible in the sense that it can be reconverted into rematerialisation from electronic process to ordinary certificates at the option of the security holders.

The articles show the degree of freedom that an investor enjoys with the advent of dematerialisation in India.

In the SEBI manual referring to the arrangements made by SEBI for dematerialisation it has quoted that dematerialisation of securities is one of the major steps for improving and modernising our market and enhancing the level of investor protection. As a part of the policy it

was decided to introduce paperless trading and electronic book entry transfer in a phased manner. A working group constituting the NSDL, CDSL and other intermediaries were appointed in this regard. Based on the studies and on relevant inputs following steps were taken in the regard of implementing dematerialisation:

1. An element of compulsion was introduced requiring individual and institutional investors to settle trade compulsorily through dematerializing of selected companies.
2. To begin with the Foreign Institutional Investors and Overseas Corporate Bodies were required to settle trade in dematerialized form in respect of 8 scrips in 1999 and subsequently it was increased to 319 scrips and 360 scrips.
3. On seeing the satisfactory progress of dematerialization of shares and settlement the retail investors were encouraged to invest in shares.
4. Delivery of securities in dematerialized form was permitted and rolling settlement was also introduced.

The article continues to quote the dematerialization had gained international acceptance as a highly transparent and cost efficient method steps taken by SEBI in bringing about the much needed transparency.

OBJECTIVES:

1. To evaluate the present day paperless trading and it's associated shortcomings.
2. To analyse the impact of dematerialisation in the growth and integration of Indian stock market with the world market.
3. To study the extent of cost reduction and level of transparency brought about through the process of dematerialisation in Indian stock markets.
4. To study the extent of reduction in customer complaints and redressal in the stock trading system.

5. To assess the volume of stock trading in the Indian stock market due to the present day paperless regime.
6. To make suggestions, based on the findings of the study.

SCOPE AND SIGNIFICANCE OF THE STUDY:

The study is significant as all over the world investments in securities are making an unprecedented growth. With the advent of computerisation complimented by the advent of the internet and online trading becoming a reality, it has become relevant to study the extent of impact created by the process of dematerialisation in the stock exchanges.

The study aims to highlight the impact of dematerialisation in the Indian Stock Market. The study would also leave further inroads for future researchers in other disciplines of economics and management regarding the progressive growth of Indian Stock Market.

INTERDISCIPLINARY RELEVANCE:

Stock Exchanges are often referred to as the barometer of the economy. The Capital formation is triggered by the stock exchanges as they are the primary source for infusing funds into the economy. The Capital so collected is diversified into various other disciplines in the economy. The growth of the Indian Capital Market and the consequent expansion of the Stock Markets brought about by the dematerialisation process have brought significant changes in the stock market. The study would be beneficial for research scholars in other disciplines alike.

PERIOD OF THE STUDY:

The study was undertaken for a period of 3 years (June 2008 to June 2011). The data's and other related relevant information pertaining to the timelines from 1992 to 2010 have been used for the successful completion of the study.

DESIGN OF THE STUDY:

This study made use of secondary data only. The secondary data collected from various publications, research abstracts, journals, handbooks etc and was electronically processed and presented in the form of tables and graphs. Various statistical tools and techniques like averages, percentage, correlation, regression, t-test; ANOVA Table was made use of. Statistical package SPSS was also employed for deriving meaningful analysis and conclusions.

LIMITATIONS OF THE STUDY:

1. The study is purely based on secondary data; hence the limitations of secondary data do apply.
2. The study fails to identify the exact volumes of transactions prior to dematerialisation.
3. The study is limited to the data available with BSE and NSE.

SCHEME OF REPORT:

The study is divided into following chapters for easy compilation and understanding.

Chapter - I Introduction, History and Growth of Stock Exchanges in India

Chapter – II Dematerialisation

Chapter – III Review of Literature

Chapter – IV Data Analysis

Chapter – V Findings, Conclusion and Recommendations

MAJOR FINDINGS OF THE STUDY:

1. The entire Indian stock market has been dematerialised in a time bound manner and it has contributed to the unprecedented growth of the Indian Stock Market.

- 2. There has been a huge growth in the volume of shares traded and the amount of market capitalisation after dematerialisation of shares in the Indian stock markets.**
- 3. The Indian stock market is one among the oldest stock markets in the world and the Bombay Stock Exchange being the oldest in Asia.**
- 4. There has been a substantial reduction in transaction cost due to the present day paperless trading.**
- 5. The Indian stock market has been growing steadily over the years and has contributed in a big way for creating infrastructure throughout the country.**
- 6. The Indian stock markets has taken significantly less time to complete the herculean task of dematerialisation as compared to some of the developed markets in the world.**
- 7. SEBI is consistently evolving improved market mechanisms, processes and regulations. Moreover it has made several norms and its compliances very strict and stringent.**
- 8. The Indian stock market is growing at par with the stock markets of other developed nations.**
- 9. The extent of dematerialisation has led to large reduction in investor grievances.**