A STUDY ON THE INFLUENCE OF STOCK EXCHANGES ON THE FUNCTIONING OF THE CAPITAL MARKET

Soumi Bandyopadhyay, LL.M, Pondicherry University

ABSTRACT

This research paper aims to explore the impact of stock exchanges on the capital market and the role of intermediaries in facilitating stock market operations. The study will also analyse the impact of information transparency on investor confidence and market performance withinthe context of stock exchanges.

Through an in-depth analysis of existing literature, this researcher aims to provide a comprehensive understanding of the interplay between stock exchanges, intermediaries, information transparency, and investor confidence. The study will examine the historical evolution of stock exchanges and intermediaries in the capital market and their impact on market efficiency and liquidity. The researcher will also investigate the impact of recent regulatory reforms aimed at enhancing information transparency and accountability in the stock market. On the basis of analysis, the research aims to demonstrate the positive impact of information transparency on investor confidence and market performance.

CHAPTER I

INTRODUCTION

The stock market plays an important role in the modern economy.[1] The stock market refers to a marketplace where publicly traded companies' shares of stock are bought and sold. It is a mechanism for companies to raise funds and for investors to buy and sell ownership stakes in those companies. When a company goes public, it issues shares of stock, which represent partial ownership in the company. These shares can then be bought and sold on the stock market. The stock market refers to the marketplace where shares of publicly traded companies are bought and sold. The stock exchange, on the other hand, is a physical or virtual platform where these shares are traded.

A stock exchange is a marketplace where securities such as stocks, bonds, and derivatives are bought and sold. It provides a platform for companies to raise capital by issuing and selling their shares to the public. Stock exchanges also provide a mechanism for investors to buy and sell securities, enabling them to invest in a wide range of companies and industries. The Securities Contracts (Regulation) Act, 1956 provides direct and indirect oversight of all aspects of securities trading, including the operation of stock exchanges, with the aim of preventing undesirable transactions. It grants the Central Government regulatory jurisdiction over (a) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) the listing of securities on stock exchanges. In order to be recognized, a stock exchange must comply with the requirements prescribed by the Central Government. Stock exchanges also frame their own listing regulations in accordance with the minimum listing criteria set out in the Securities Contracts (Regulation) Rules, 1957.[2]

The main function of stock exchanges is to provide a marketplace for companies to raise capital by issuing and selling their shares to the public, and for investors to buy and sell securities such as stocks, bonds, and derivatives. The NYSE is among several stock exchanges globally; however, it holds the title of the largest exchange in terms of market capitalization, which refers to the overall value of the securities traded on the exchange.[3] Investor behaviour

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[1] The Institute of Company Secretaries of India, Capital Markets and Securities Laws, 365

[2] The Institute of Company Secretaries of India, Capital Markets and Securities Laws, 366

[3] "What is a stock exchange? Understanding the marketplace where shares are bought and sold", https://www.businessinsider.com/personal-finance/stock-exchange?IR=T#:~:text=A%20stock%20exchange%20is%20a%20marketplace%20where%20you%20buy%20sto cks,efficient%20and%20transparent%20as%20possible, (accessed April 4, 2023)

in the stock exchange is a complex and dynamic phenomenon that can be influenced by a wide range of factors, including economic conditions, market trends, company performance, and individual investor preferences and biases.

India has several stock exchanges, but the two main exchanges are the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). The National Stock Exchange (NSE) was established in 1992 and is headquartered in Mumbai. It is the largest stock exchange in India in terms of market capitalization and trade volume. The NSE offers a fully automated screen-based electronic trading system, known as the National Exchange for Automated Trading (NEAT) system. It also provides a platform for trading in equities, derivatives, currencies, and debt securities. The Bombay Stock Exchange (BSE) is one of the oldest stock exchanges in Asia, having been established in 1875. It is also headquartered in Mumbai and provides a platform for trading in equities, derivatives, currencies, and debt securities. The BSE is known for its iconic trading floor, but it has now adopted an electronic trading platform as well.

Apart from the NSE and BSE, India also has other stock exchanges such as the Calcutta Stock Exchange, the National Commodity and Derivatives Exchange (NCDEX), and the Multi Commodity Exchange (MCX). However, the NSE and BSE remain the most popular and significant stock exchanges in India.

Scope and Objectives

The scope and objectives of this research are as follows: -

1. To study and understand the impact of stock exchanges in the capital market.
2. To understand the role of intermediaries in the stock market operation.
3. To analyze the impact of information transparency on investor confidence and market performance in the context of stock exchanges.

Review of Literature

1. Sameer Yadav, in his research paper named, "STOCK MARKET VOLATILITY- A STUDY OF INDIAN STOCK MARKET" has explained the stock market with Indian

perspective. The author further went ahead and described about the volatility of Indian stock market.[4]

2. Dr.S.Sekar and Mrs. B.Saranya and others, in their research paper named, “A General Study about the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE)” has explained the working of the stock market and eventually drew a comparison between National Stock Exchange and Bombay Stock Exchange.[5]
3. In a study conducted by Debjit Chakraborty in 1997, an attempt was made to establish a correlation between key economic indicators and the behaviour of the stock market. The study also analyzed how the stock market reacted to changes in the economic situation. The factors taken into consideration were inflation, money supply, GDP growth, fiscal deficit, and credit deposit ratio. To determine the trend in the stock market, the BSE National Index of Equity Prices (Natex), which consisted of 100 companies, was used as the benchmark. The study revealed that the movements in the stock market were primarily influenced by broad money supply, inflation, credit deposit ratio, and fiscal deficit, in addition to political stability.
4. Suraj Prakash Singh, Avinash Chandra Supkar and others, in their research paper titled, “RAMIFICATIONS OF STOCK MARKET’S BEHAVIOR ON ECONOMIC GROWTH IN INDIA” discusses about wide interactions and effect of various factors of economic indicators with the important three development indicators of Gross Domestic Product (GDP), Foreign Exchange Reserve (FER) and BSESN index.[6]
5. Sobia Naseem, Mohammad Mohsin, in their article titled, “The Investor Psychology and Stock Market Behavior During the Initial Era of COVID-19: A Study of China, Japan, and the United States” discusses about the the investor psychology in the era of Covid 19 in the stock Market.[7]

[4] Sameer Yadav, “STOCK MARKET VOLATILITY- A STUDY OF INDIAN STOCK MARKET”,629-631, Global Journal for Research Analysis, Volume 6, Issue 4,629-632

[5] Dr.S.Sekar and Mrs. B.Saranya, A General Study about the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE),201,202, International Journal of Emerging Technologies and Innovative Research (JETIR), Volume 5, Issue 9, 201-205

[6] Suraj Prakash Singh, Avinash Chandra Supkar, Subrat Kumar Pradhan, Ashwani Kumar Gupta, RAMIFICATIONS OF STOCK MARKET’S BEHAVIOR ON ECONOMIC GROWTH IN INDIA, 5389,5390 ,Palarch’s Journal Of Archaeology Of Egypt/Egyptology, 5376-5393

[7] Sobia Naseem, Mohammad Mohsin, The Investor Psychology and Stock Market Behavior During the Initial Era of COVID-19: A Study of China, Japan, and the United States, https://www.frontiersin.org/articles/10.3389/fpsyg.2021.626934/full

Hypothesis

Stock exchanges play a crucial role in shaping the performance and functioning of the capital market. It posits that the presence and operations of stock exchanges have a direct influence on the liquidity, transparency, price discovery, and overall growth of the capital market.

Research questions

1. What is the impact of the stock exchanges on the development and efficiency of the capital market?
2. What is the role of intermediaries in stock market operation?
3. How does increased information transparency affect investor behaviour and decision-making processes in the stock market?

Research Methodology

The researcher has adopted the doctrinal method while conducting this particular research. The two main primary sources used for research are research papers and relevant statutes/ regulations. The researcher used the following secondary sources; books, articles, journals and legal dictionaries.

Citation Style

The researcher has followed the ILI style of citation for this particular research paper.

Chapter II

HISTORICAL DEVELOPMENT OF STOCK EXCHANGES IN THE CAPITAL MARKET

Origin and Early Development: -

In the early era, there was a paper trade system, and brokers would receive records of the price and quantity right away. The ideal matches were chosen by hand. This is how quotes used to flood the market and sound over the assembly. The East India Company started trading in loan securities in the 18th century, which is when the first securities were traded in India. In Bombay, the 1830s saw the introduction of corporate shares along with the stock of banks and cotton presses[8]. The earliest stock exchanges in India may be traced back to the 1850s when 22 stockbrokers started trading in front of Bombay's Town Hall under a banyan tree. As the number of brokers multiplied, the shift continued, eventually settling in 1874 at what is now known as Dalal Street. [9] The Bombay Stock Exchange (BSE), then a still-unofficial organisation known as the Native Share and Stockbrokers Association, was established in 1875. [10]

The Bombay Stock Exchange (BSE) was the first stock exchange to be established in India, and it was originally created as a platform for native share and stock brokers to trade securities[11]. The exchange started functioning in 1875, making it the oldest stock exchange in Asia. It initially operated as an informal association of brokers before eventually becoming a formal exchange. Two additional stock exchanges, the Ahmedabad Stock Exchange and the Calcutta Stock Exchange, were subsequently established in 1894 and 1908, respectively.

Formal Regulations:

The stock market primarily facilitated trading in the stocks of textile mills, banks, and plantations during this period. The Controller of Capital Issues (CCI) was established in 1947

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[8] Anwesha Ghosh, "History and Development of Capital Market in India". available at: https://www.academia.edu/34921277/History_and_Development_of_Capital_Markets_in_India (last visited on May 1, 2023)

[9] Historical Evolution of Stock Market in India, available at: https://www.insightsonindia.com/indian-economy-3/indian-financial-system-ii-money-and-capital-market-in-india/stock-exchanges-in-india/historical-evolution-of-stock-market-in-india/, (last visited on April 28, 2023)

[10] *Ibid*

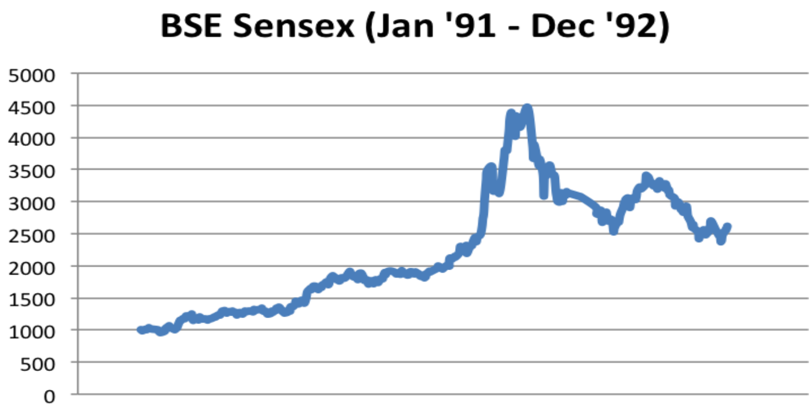
[11] The Historical Evolution of the Indian Stock Market, available at: https://www.linkedin.com/pulse/historical-evolution-indian-stock-market-semsindia/ (last visited on May 2,2023)

to regulate new issues of securities and set pricing guidelines. **The Securities Contract Regulation Act (SCRA) was enacted in 1956** to regulate the stock exchanges and securities trading.[12] In **1957,** the Government of India established the Securities and Exchange Board of India (SEBI) as the regulatory authority for securities markets.

Liberalization and Reforms: (1990s-2000)

The National Stock Exchange of India (NSE) was established in 1992 as a screen-based trading platform, introducing electronic trading to the Indian stock market[13]. The NSE introduced the Nifty 50 index in 1996, which became a benchmark index for the Indian stock market. Dematerialization of shares was introduced, replacing physical share certificates with electronic holding through depositories.

By 1992, the BSE Sensex rallied from 1000 to 4000, registering a rise of 300%. This was the time of the big bull- Mr Harshad Mehta. His voluminous buying led the market to touch new highs.



[14]

After the scam was known, the SEBI (Securities Board of India) was introduced to regulate the unrequired volatility in the stock market. In 1995, the BSE launched the SENSEX index, comprising the 30 largest and most actively traded stocks on the exchange. Soon after that,

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[12] Securities Contracts*, available at*: https://cleartax.in/g/terms/securities-contracts#:~:text=The%20Securities%20Contracts%20(Regulation)%20Act,securities%20markets%20and%20stock%20exchanges.(last visited on April 22,2023)

[13] The Historical Evolution of Indian Stock Market, *available at*: https://wealthdesk.in/blog/the-historical-evolution-of-indian-stock-market/ (last visited on April 26, 2023)

[14] Pune Investor, "*When The Tide Went Out: 1992*", 2014, *available at: https://puneinvestor.wordpress.com/2014/07/01/when-the-tide-went-out-1992/*

reforms were introduced to modernize and streamline the stock market, including the introduction of dematerialization of shares, online trading, and investor protection measures.

Recent Developments:

The introduction of algorithmic trading and high-frequency trading gained prominence in the Indian stock market. The SEBI implemented several reforms to enhance transparency, investor protection, and corporate governance standards. The BSE and NSE launched new indices, such as BSE Sensex Next 50 and Nifty Bank, to provide diversified investment options. The introduction of the Goods and Services Tax (GST) and the Insolvency and Bankruptcy Code (IBC) had significant implications for the stock market. Online trading platforms and mobile trading applications gained popularity, increasing retail participation in the stock market.

There are numerous other events, regulations, and developments that have shaped the Indian stock market over the years. The stock market continues to evolve, reflecting the broader economic and regulatory changes in India.

Chapter III

ROLE AND FUNCTIONS OF STOCK EXCHANGES IN THE CAPITAL MARKET

Stock Exchanges are defined as "an essential concomitant of the Capitalistic System of economy. It is indispensable for the proper functioning of corporate enterprise. It brings together large amounts of capital necessary for the economic progress of a country. It is a citadel of capital and pivot of money market. It provides necessary mobility to capital and indirect the flow of capital into profitable and successful enterprises. It is the barometer of general economic progress in a country and exerts a powerful and significant influence as a depressant or stimulant of business activity." The Securities Contracts (Regulation) Act of 1956 defines, a stock exchange as **an association, organisation, 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."[15]** This is also known as the share market.

In India, there are major two exchanges available that is:

- National Stock Exchange (NSE India)
- Bombay Stock Exchange (BSE)

The participants for the stock market are:

1. Securities and Exchange Board of India (SEBI)
2. Brokers
3. Traders
4. Investors
5. National Stock Exchange (NSE)
6. Bombay Stock Exchange (BSE)

Process of Listing of Securities in the Stock Exchange:

According to ***Section 9 (1) (m) of the SCRA*[16]**, a stock exchange is permitted to establish regulations for the listing of securities under their governing bye-laws. If a company desires to list its securities on a particular stock exchange, it must follow and fulfill the requirements

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[15] The Securities Contracts (Regulation) Act, 1956, s. 2(j)

[16] The Securities Contracts (Regulation) Act, 1956, s. 9 (1) (m)

mentioned in the SCR rules and bye-laws. The Securities Contract Regulation Rules, 1956, specify the necessary documents that a company must provide to the stock exchange while seeking the listing of its securities.

The Listing Agreement

At present, all securities exchanges have a listing agreement that contains standard provisions that are common across them. This agreement serves as a contract between the securities exchange and issuers, outlining the terms and conditions that govern their relationship with the investors.

Recognition of the Stock Exchange

According to *Section 3 of the Securities Contract (Regulation) Act*[17], any stock exchange seeking recognition must submit an application to the Central Government in the prescribed manner. If the Central Government is satisfied with the application, recognition may be granted, subject to further inquiry and conditions specified in the Act. The grant of recognition must be published in the Official Gazette. If the application for recognition is refused, the applicant must be given an opportunity to present their case. Amendments to the recognition shall not be made without the involvement of the Central Government.

Corporatisation and Demutualisation of Stock Exchanges

According to SCRA, "demutualization" refers to the separation of an RSE's members' ownership and management from their trading rights in line with a SEBI-approved system. Thus, demutualization aims to divide trade (including clearing) rights from ownership and management rights.[18]

Withdrawal of recognition

If, in the interest of the public, the central government feels that the recognition given to the stock exchange be withdrawn, then it has the power to do so under ***section 5 of the SCRA***.

[17] The Securities Contracts (Regulation) Act, 1956, s.3

[18] M.S. Sahoo, "*Corporisation and Demutualization of Stock Exchanges*", Prime Database group,https://www.primedatabase.com/Article/dir-05ar8.pdf

What Affects the Stock Market in India? –

Several factors can impact the stock market in India, including economic indicators such as household consumption, consumer confidence, business optimism, wealth levels, the capacity of factories, the income of other countries, and exchange rates.[19]

Additionally, interest rates and the money supply affect GDP, which, in turn, affects the money flow in the stock market. The market is also influenced by elections and economic reforms, as the strength of governance and policies impacts its performance. In the past, the Indian market has responded to changes in these areas, as seen in 1994, 2004, and 2014. As an emerging economy, India is also affected by global events and economic reforms.[20]

Primary Functions of Stock Exchanges

The following are the different functions of the stock exchange:

1. Determining the security prices: Since the stock exchange operates on the demand and supply of securities, this concept is leveraged for determining the prices on a continuous basis.[21] Speculation accelerates this demand and supply in the market. The securities that are growth-oriented and profitable have a higher value. Based on this valuation of securities, investors and traders can assess and determine the security that will give them the most returns on investments.

2. Maintaining Liquidity: One of the most important functions of the stock exchange is maintaining liquidity. As securities can be easily sold and bought on an exchange, they are more likely to be converted into cash. This function allows investors to stay confident about trading in the stock exchange.

3. Indicating the Economic State: Stock exchanges can very effectively indicate the economic state of the country. Traders can identify the industries that are growing and that are seeing a downfall. On a macro level, you can identify sectors that are booming. At a micro level, you can identify the particular companies that are facing losses. Overall, the entire picture of an economy can be understood through the situation of a stock exchange.

[19] *Supra note at 13*
[20] *ibid*
[21] Functions of Stock Exchange in India, available at: https://leverageedu.com/blog/functions-of-stock-exchange/ (last visited on May 2, 2023)

4. Facilitating investments: Stock exchanges function according to the guidelines of regulatory bodies such as SEBI in India. Due to the presence of regulatory bodies, investors and traders feel safe investing in this market. This facilitates the culture of investment since a great amount of profits can be earned through trading in the stock exchange. In fact, long-term trading can help in compounding your money.

5. Protect the Investor's Interest

The Stock Exchange has also been a safeguard for investors to protect their interest in the stock market. The investments or the funds that all the investors used in the stock market are controlled by the exchange in order to gain the trust of the investors to make an interest in the stock market.

6. Corporate Governance

There are many rules and regulations by the stock exchange in order to maintain the corporate governance to satisfy the demands of the shareholders and to make the management more efficient.

7. Redistribution of the Wealth

By giving the chance to all types of investors or traders to do their trades in the stock market, the stock exchange removes the inequalities in the wealth generation. All types of traders or investors can make profitable deals from the stock market.

8. It also creates Investment Opportunities for small investors

Investing in the stock market can be done with some funding also rather than entering into the big businesses with huge capital investments. So, it benefits the small investors also to grow their funding with small amounts and provides them with passive income from their savings.

Comparative Study between National Stock Exchange and Bombay Stock Exchange

CRITERIA	NATIONAL STOCK EXCHANGE	BOMBAY STOCK EXCHANGE
Establishment	The NSE was founded in 1992 as a modern electronic exchange.	The BSE, the oldest stock exchange in Asia, was established in 1875.

Ownership and Governance	The NSE is also corporatized and demutualized but is largely owned by financial institutions, including banks, insurance companies, and other financial intermediaries.	The BSE is a corporatized and demutualized exchange, which means that it is owned by corporate entities and has a governing board of directors.
Trading Platform	The NSE introduced screen-based electronic trading in India, and it is known for its fully automated trading system. It operates on the "National Exchange for Automated Trading" (NEAT) system, which provides a high-speed, order-driven trading platform.	The BSE, initially operating as an outcry system, adopted an electronic trading platform called BOLT (BSE Online Trading) in 1995, but it still retains the option of trading through a traditional outcry method.
Market Share and Trading Volumes	The NSE's trading volumes are often significantly higher due to its technological advancements, wider reach, and a larger number of listed companies.	The NSE has consistently held a larger market share and higher trading volumes compared to the BSE.
Liquidity	In case of liquidity, NSE is better than BSE, since volumes traded in NSE are much higher compared to BSE.	Comparably lower than NSE

CHAPTER IV

INTERMEDIARIES AND THEIR ROLE IN THE STOCK MARKET

Introduction:

Intermediaries are the middlemen who act as a link between two parties involved in a transaction. They bridge the communication gap between them and facilitate the exchange of information to achieve a common goal. In a stock market or any marketplace, intermediaries act as the link between producers and consumers, facilitating transactions between them. They play a vital role in enabling intermediate actions and ensuring that the parties involved in the transaction have a smooth experience.

The SEBI Act of 1992 identifies a range of financial professionals who act as intermediaries of SEBI, which includes stockbrokers, authorized persons such as sub-brokers, share transfer agents, bankers involved in an issue, trustees of trust deeds, issue registrars, merchant bankers, underwriters, portfolio managers, investment advisers, depositories, custodians of securities, foreign institutional investors, and credit rating agencies. These professionals facilitate transactions in the securities market, and the SEBI Act of 1992 identifies them as intermediaries under its regulatory framework.[22]

They include[23]:

1. **Stock Brokers:** These are individuals or firms that buy and sell securities on behalf of investors. They earn a commission or fee for their services.
2. **Depository Participants (DPs):** DPs are intermediaries who facilitate the holding and transfer of securities in electronic form. They are registered members of the depositories, such as NSDL and CDSL, and are authorized to provide depository services to investors.
3. **Investment bankers:** These are firms that help companies raise capital by underwriting and selling securities. They also advise companies on mergers and acquisitions, restructuring, and other financial transactions.
4. **Fund Managers:** These are professionals who manage investment funds, such as mutual funds and exchange-traded funds (ETFs), on behalf of investors.

[22] Role of Intermediaries in Stock Market-1, available at: https://www.angelone.in/knowledge-center/share-market/role-of-intermediaries-in-stock-market-1 (last visited on April 22, 2023)
[23] *Ibid*

5. **Research analysts**: These are individuals or firms that provide research reports and investment recommendations to investors.
6. **Market makers:** These are firms that provide liquidity by buying and selling securities on the stock exchange.

Analysis of the role of intermediaries in the present scenario:

In the present scenario, intermediaries continue to play a crucial role in the functioning of various industries, including the stock market. With the growing complexity of financial markets and the increasing number of participants, intermediaries have become even more important in facilitating transactions and providing support to investors.

One of the primary roles of intermediaries in the stock market is to provide **liquidity**. Market makers and brokers help to ensure that there is a constant supply of buyers and sellers, thereby facilitating the smooth functioning of the market. They also provide valuable services such as trade execution, research, and analysis, which help investors make informed decisions.

Another important role of intermediaries is **risk management.** They help investors manage risk by offering products such as insurance and derivatives that allow investors to hedge against adverse market movements. This is particularly important in times of market volatility when investors are more exposed to risk.

Intermediaries also play a critical role in **enabling access to capital markets**. Investment banks and brokers help companies raise capital through initial public offerings (IPOs) and other securities offerings. This helps companies to finance their growth and expansion plans, creating employment opportunities and boosting economic growth.

To sum up the entire discourse, the intermediaries continue to be essential players in the stock market and other industries. While technology has disrupted the traditional model of intermediation in some areas, the human element remains crucial in facilitating complex transactions and providing valuable support and advice to investors.

Chapter V

INFLUENCE OF STOCK EXCHANGES ON THE CAPITAL MARKET

The impact of stock exchanges on the development and efficiency of the capital market is a crucial area of study that has been explored by many scholars and researchers. The capital market plays a critical role in the economic development of a country, as it provides the necessary funds for long-term investments and economic growth. Stock exchanges are one of the key players in the capital market, and their role in the development and efficiency of the market cannot be overemphasized.

Impact of Major Stock Market Scams: -

The Harshad Mehta Scam (1992):

During the time of liberalization, privatization, and globalization in India, Harshad Mehta became wealthy beyond the existing standards. He had an inspiring story of going from being a mere immigrant to the city to becoming a renowned stockbroker in the Bombay Stock Exchange (BSE). He was popularly known as the 'Big Bull' after achieving great success with his firm, Grow More Research and Asset Management, following many odd jobs.[24] In the early 1990s, stockbroker Harshad Mehta orchestrated a massive securities fraud, manipulating the stock prices of several companies using fake bank receipts. The scam is estimated to have caused losses worth around Rs. 4,000 crore to investors.

The Harshad Mehta scam, also known as the securities scam of 1992, was one of the biggest financial frauds in Indian history. The $1.3 billion market manipulation's most significant result was that it opened the door for more effective, stringent, and comprehensive market regulation. The regulatory system's flaws were highlighted by the ease with which Mehta sold fraudulent debt securities while working closely with Metropolitan Bank and Bank of Karad.[25]

[24] Harshad Mehta Scam, *available at*: https://cleartax.in/g/terms/harshad-mehta-scam#:~:text=Introduction%20to%20the%20Harshad%20Mehta%20Scam,-The%201992%20stock&text=The%20scam%20featured%20an%20embezzlement,3542%20crores%20(%247%20billion) (last visited on May 1,2023)

[25] "1992: The Harshad Mehta Scam*", Frontline,* Aug 15, 2022

The scam led to a significant impact on the Indian stock market and the financial system as a whole. Here are some of the impacts of the Harshad Mehta scam:

1. **Loss of Investor Confidence**: The scam caused a loss of investor confidence in the Indian stock market. Many investors withdrew their investments, and it took years to rebuild their trust in the system.
2. **Regulatory Reforms**: The scam led to significant regulatory reforms in the Indian financial sector. The Securities and Exchange Board of India (SEBI) was given more power to regulate the stock market and prevent such frauds from happening again.
3. **Banking Sector Reforms**: The scam exposed the weaknesses in the banking system and led to significant banking sector reforms. The Reserve Bank of India (RBI) introduced measures to strengthen the banking sector, including stricter norms for lending and better risk management practices.
4. **Legal Reforms**: The scam also led to significant legal reforms in India. The government introduced the Recovery of Debts Due to Banks and Financial Institutions Act (RDDBFI), which allowed banks and financial institutions to recover their bad debts more efficiently.
5. **Impact on Harshad Mehta**: The scam had a significant impact on Harshad Mehta, who was arrested and faced legal action. He was banned from the stock market, and his assets were seized. He died in prison in 2001.[26]

The Harshad Mehta scam had a far-reaching impact on the Indian financial system, leading to significant regulatory, banking, and legal reforms. It also highlighted the need for more transparency and accountability in the financial sector.

The Ketan Parekh Scam (2000):

"If the Harshad Mehta scam shook the Indian stock market in 1992, it was Ketan Parekh who almost ripped it to shreds, nine years later."[27]

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[26] *ibid*

[27] "Dig deep into scamster Ketan Parekh's case only on 'Money Mafia' Season 2", *Hindustan Times,* Dec 22, 2021

The Ketan Parekh scam was a major financial scandal that took place in India in the early 2000s. Ketan Parekh was a stockbroker who used a network of shell companies to manipulate the stock prices of various companies. He used large amounts of borrowed money to invest in stocks, leading to a sharp rise in their prices, and then sold them at a profit.

The impact of the Ketan Parekh scam on the Indian financial market was significant. **Investors suffered losses amounting to Rs 2000 crores, which is equivalent to $4 billion**.[28] It caused a loss of investor confidence in the stock market, leading to a drop in trading volumes and a decrease in the number of participants. The scam also led to increased scrutiny and regulatory measures in the sector, such as the introduction of new guidelines for stockbrokers and stricter enforcement of rules.

The Ketan Parekh scam also had a negative impact on the broader economy, as several prominent companies were involved in the fraud. It caused a loss of jobs and revenue for several companies, leading to a slowdown in economic growth.

The Ketan Parekh scam highlighted the **need for greater transparency and accountability in the Indian financial market**. It also underscored the importance of effective regulatory oversight to prevent fraud and protect investors' interests. The scam led to the establishment of the Securities and Exchange Board of India (SEBI) committee to examine the functioning of the stock market and recommend measures to prevent such scams in the future.[29]

The Satyam Scandal (2009):-

The Satyam scandal, which came to light in 2009, had a significant impact on the Indian stock market and the corporate sector. The Satyam Scandal highlighted the weaknesses of the Indian legal system and shed light on the country's financial system. Satyam Computers was founded by the Raju brothers in 1987, and in 1991 it became listed on the BSE, with shares being oversubscribed by 17 times. Over the years, the company's growth was impressive, achieving significant milestones, with annual revenue reaching 1 billion and hitting 2 billion in 2008.[30]

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[28] The Ketan Parekh Scam, available at: https://www.managementstudyguide.com/ketan-parekh-scam.htm (last visited on May 2,2023)

[29] Ketan Parekh Scam – The Infamous Stock Market Fraud!, available at: https://tradebrains.in/ketan-parekh-scam/ (last visited on May 1, 2023)

[30] Satyam Scam, Satyam Scandal, available at: https://cleartax.in/g/terms/satyam-scam-satyam-scandal (last visited on May 1, 2023)

The fraud committed by the company's founder and chairman, Ramalinga Raju, involved overstating the company's revenues and profits, forging bank statements, and manipulating the company's share price.

The impact of the Satyam scandal on the Indian stock market was severe. **The company's share price plunged by more than 80% in just two days after the news of the fraud broke**. The broader market also experienced a significant decline, with the BSE Sensex and NSE Nifty falling by more than 7% in a single day.

The scandal had a **cascading effect on the corporate sector, as investors lost trust in corporate governance and accounting practices**. This resulted in a decrease in foreign investment in India, as international investors became wary of investing in Indian companies.

To address the issue, the Indian government introduced several reforms to improve corporate governance and accounting practices. The Ministry of Corporate Affairs set up a committee to suggest measures to prevent such scams in the future. The Securities and Exchange Board of India (SEBI) also tightened its regulations on accounting and auditing practices, as well as on the independence of auditors.

After the scandal, Tech Mahindra acquired Satyam through a public auction, and the new company was rebranded as 'Mahindra Satyam'. **In 2018, SEBI prohibited Price Waterhouse (PwC), the auditor of Satyam Computers, from conducting any audit processes for any company in India for a period of two years**. The share prices of Satyam plummeted from Rs. 554 on the BSE and $29.10 on the NYSE in 2008 to Rs. 11.50 and $1.80, respectively.[31]

Vijay Mallya Scandal (2016):

In 2016, it was revealed that businessman Vijay Mallya had taken out huge loans from banks and used the money to fund his failing airline and other businesses. Mallya fled the country to avoid legal action, leaving behind unpaid loans and a major scandal. Mallya, a well-known businessman and former member of the Indian parliament, was accused of defaulting on loans worth several thousand crore rupees taken from various Indian banks. “Loans associated with

[31] i*bid*

Kingfisher amounted to Rs. 7000 crores."[32] The table below shows the loans taken by Kingfisher from various banks[33]:

WHAT KINGFISHER OWES BANKS

Bank	Rscrore
SBI	1,600
IDBI Bank	800
PNB	800
Bank of India	650
Bank of Baroda	550
United Bank of India	430
Central Bank	410
UCO Bank	320
Corporation Bank	310
State Bank of Mysore	150
Indian Overseas Bank	140
Federal Bank	90
Punjab & Sind Bank	60
Axis Bank	50
3 other banks	603
Total	6,963

The scandal not only led to **financial losses for the banks but also caused damage to the reputation of the Indian banking sector**. The Indian government took several measures to recover the unpaid loans, including revoking Mallya's passport and seeking his extradition from the UK. The scandal also raised concerns about the effectiveness of India's regulatory mechanisms and led to calls for better corporate governance and stricter regulations in the country. The Mallya scandal is considered one of the most prominent corporate fraud cases in India's recent history, and its impact is still being felt in various spheres.

Scams in the Stock Exchange and an Increase in Information Transparency

India has witnessed several stock exchange scams in the past, such as the Harshad Mehta scam and the Satyam scandal, which had a significant impact on the country's financial system and investor confidence. These scams exposed the loopholes in the regulatory framework and highlighted the need for greater transparency in the Indian stock market.

[32] Vijay Mallya Scam Demystified | Vijay Mallya Case Study, available at: https://tradebrains.in/vijay-mallya-scam/ (last visited on April 26,2023)
[33] *ibid*

As a response to these incidents, the Securities and Exchange Board of India (SEBI) has implemented various measures to enhance transparency in the Indian stock market. For instance, SEBI has mandated stricter disclosure norms for companies, increased surveillance and monitoring of stock exchanges, and introduced penalties for non-compliance with regulations. Additionally, SEBI has implemented measures to improve corporate governance practices, such as requiring listed companies to have independent directors on their boards.

Overall, the stock exchange scams in India have led to greater awareness about the importance of transparency and accountability in the financial system. The regulatory reforms and measures taken by SEBI have contributed to greater transparency and have helped in improving investor confidence in the Indian stock market. However, there is still a need for constant monitoring and regulation to ensure the integrity of the stock market and prevent fraudulent activities.

Recent regulatory reforms aimed at enhancing information transparency and accountability:-

There have been several recent regulatory reforms aimed at enhancing information transparency and and accountability in the stock market. One such reform is **the Securities and Exchange Board of India's (SEBI) mandate** for listed companies to disclose information on a regular basis, including financial results, board composition, related party transactions, and shareholding patterns. SEBI has also implemented regulations requiring companies to disclose detailed information about their corporate governance practices, including the appointment and remuneration of board members and senior executives. These regulations aim to increase transparency and accountability and help prevent fraudulent activities in the stock market. In addition, SEBI has introduced regulations requiring credit rating agencies to disclose their methodologies and ratings criteria and prohibiting them from providing consulting services to their rated companies. These regulations aim to increase transparency and reduce potential conflicts of interest in the rating process.

Another significant reform is the **introduction of the Insolvency and Bankruptcy Code (IBC) in 2016,** which has streamlined the process of resolving corporate insolvencies and strengthened the rights of creditors. The IBC aims to **increase transparency and accountability in the resolution process** and reduce the burden on the judicial system.

Overall, these regulatory reforms aim to increase information transparency and accountability in the stock market and promote investor confidence by reducing the risk of fraudulent activities and improving the accuracy of financial reporting.

Enhanced Information Transparency and Its Positive Effect on Investor Confidence:-

The Vijay Mallya scam had a significant impact on investor confidence in India, particularly in the banking and financial sectors. However, measures taken by regulatory authorities to improve transparency and accountability have helped restore investor confidence in recent years. One such example is the successful Initial Public Offering (IPO) of SBI Cards and Payment Services Ltd in March 2020.[34] SBI Cards is a subsidiary of the State Bank of India (SBI) and is India's second-largest credit card issuer. The IPO was oversubscribed 26 times, indicating strong investor confidence in the company and the financial system.[35]

This success can be attributed to various factors, including SBI Cards' strong financial performance, the positive outlook for the Indian economy, and the increased transparency and accountability in the financial sector following regulatory reforms.

Overall, the successful IPO of SBI Cards indicates that investor confidence has improved following the Vijay Mallya scam and the regulatory measures taken in response. However, it is important to note that there is still a need for constant vigilance and regulation to ensure the integrity of the financial system and protect the interests of investors.

[34] The SBI Card IPO, available at: https://www.icmrindia.org/casestudies/catalogue/Finance/FINC180.htm (last visited on May 2, 2023)

[35] *ibid*

Chapter VI

CONCLUSION

Stock exchanges play a critical role in the development and growth of the Indian capital market, providing a platform for companies to raise capital and investors to participate in the growth of the economy. The research also highlights the importance of intermediaries such as brokers, investment banks, and mutual funds in providing liquidity and facilitating the flow of capital in the market.

Furthermore, the analysis of the impact of information transparency on investor confidence and market performance demonstrates the positive effects of transparency on the stock market. By enhancing information disclosure and accountability, regulatory reforms such as SEBI's mandate for regular information disclosure, regulations for credit rating agencies, and the implementation of the Insolvency and Bankruptcy Code, have helped promote investor confidence and reduce the risk of fraudulent activities.

Overall, this research paper has contributed to a better understanding of the role of stock exchanges and intermediaries in the Indian capital market and the importance of information transparency in promoting investor confidence and market efficiency.

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