

Inaugural Address by Dr.Bimal Jalan Governor, Reserve Bank of India at the meeting of International Organisation of Securities Commissions, Mumbai, 11th February 1998

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Mr. Mehta, Chairman, Securities and Exchange Board of India, Distinguished Members of the Asia Pacific Regional Committee, Enforcement Directors' of APRC Securities Commission and Friends.

1. I have great pleasure in joining you today. I am thankful to Shri Mehta, Chairman, Securities Exchange Board of India (SEBI), for giving me this opportunity to be associated with your meeting and to share some thoughts with this distinguished audience. I understand that your meeting will focus essentially on the issues of market regulation, market development, surveillance and enforcement. The meeting spreads over three days and the technical sessions will cover the detailed analysis of these issues handled by experts with formidable experience and expertise. I also understand that this is the first time that any meeting of International Organisation of Securities Commission(IOSCO) is being held in India. I am particularly happy that this is happening in the 50th year of Independence, and that representatives of our neighbouring countries are here with us on this important occasion.
2. For this audience, I hardly need to emphasise the importance of meetings such as this one. Financial markets play a vital role in mobilisation and allocation of savings in the economy, transmitting signals for policy and facilitating liquidity management which is consistent with macroeconomic policy objectives. As you are all aware, world over, the Governments, the securities commissions and the Central banks, as regulators of the market, play crucial roles both proactively and reactively in the developments of the financial markets. Regulatory concerns over financial markets have assumed greater significance when the process of liberalisation and deregulation combined with the revolution in information technology, has created strong linkages among national markets. These developments have made funds instantly mobile around the world around the clock. While it has integrated various segments of the markets across national borders, both domestic and international markets have become more susceptible to new information and expectations emerging in any part of the world. In view of enormous volume of cross border flows and exposures of contingent nature, international policy co-ordination in the area of regulation has become extremely important. In this context, the international forum like this goes a long way in contributing to soundness and health of domestic and global financial system.
3. Over the years, IOSCO has been doing a commendable job towards establishing international regulatory standards and harmonising securities regulation across countries. Such standards are necessary for promoting integrity of markets, enhancing confidence in cross border trading and in fostering the healthy development of securities market. I am also glad to hear from Mr.Mehta that SEBI has been playing an active role in the deliberations within IOSCO.
4. A regional Conference such as this represents a new opportunity to analyse the financial markets of the region and the possibilities of linking them to real economic sectors. Markets need the framework of a productive structure that promotes savings and generates growth and employment. The meeting of the APRC is important in more sense than one. For one, such meetings afford the member countries an opportunity to set forth

- proposals and reflections on the role of the IOSCO in perfecting regulatory systems and standardising them at the international level. Second, it allows countries in the region with common issues to share information and experience with each other.
5. This meeting is also significant as it brings together the heads of securities regulatory commissions of markets which have been passing through a turbulent phase during an exciting and long period of consistent rapid economic growth and development. It is in these times that countries at the regional level could make valuable contributions towards evolving a regional esprit de corps as it were, in order to promote solidarity and economic stability. I have noted that a large part of your agenda will focus on recent developments in regional markets. This is as it should be.
 6. Let me take this opportunity to briefly mention some of the developments that have taken place in our markets. As you know, there has been a sea change in our markets over the past six years, largely as an outcome of the implementation of the economic reforms agenda. Indeed SEBI itself is an offspring of the reform process. This change has taken place in terms of the size of the market which have expanded phenomenally. For example, in the financial year 1991-92, Rs.62.15 billion were raised from the market through public and rights issues. Since then, on an average Rs.200 billion have been raised from the market annually. The trading volume on the stock exchanges have also increased more than six fold during this period. Market capitalisation stands at US\$ 180 billion.
 7. The character of the market has also undergone a change with as many as 35 domestic mutual funds and over 160 FIIS operating actively in our markets. More noteworthy than these changes has been the significant improvement in the market infrastructure. Today with 19 out of 22 stock exchanges having screen based trading 98 per cent of trading in Indian securities market is automated. This change in the market infrastructure have not only contributed to the growth in the trading volumes but also enhanced the degree of transparency and improved surveillance and monitoring. The functioning of the stock exchanges have improved significantly with better regulation, better monitoring and better surveillance. The exchange administration has been revamped with 50-50 representation of outsiders in the governing Boards, and measures have been taken to ensure market integrity and safety. Capital adequacy norms for brokers, margin systems, marked to market margins have all been introduced. The settlement cycles have been shortened. The stock lending system has also been introduced to facilitate settlement.
 8. One of the problems faced by investors in our markets has been the delay in registration and transfer of securities. These problems arise from physical settlement of securities. The National Securities Depository Limited has been set up for dematerialisation of securities. Unlike many of the major developed markets, we have skipped the stage of immobilisation and moved directly into dematerialisation of scrips in stages. Meanwhile, for the paper based system, steps are being taken to significantly shorten the time for registration of securities. Measures have also been taken by the RBI and SEBI to facilitate the development in liquid and transparent markets in corporate debt and government paper. Today, our markets, therefore, have most of the features of mature modern markets.
 9. What is also significant in this context is that there has been an attitudinal change in the market amongst all sections of market participants towards greater compliance, improved standards and better investor service. SEBI, as a regulatory body for the securities market, has been the driving force behind these changes. I must take this opportunity to commend SEBI on excellent progress it has made in the short span of its existence as a statutory body.
 10. An analysis of market trends would not be complete without an evaluation of institutional investment. In most countries, an increasing proportion of savings are mobilised through mutual and pension funds. So also in India. The mutual funds represent a key participant in our markets as a consequence of economic reforms and recently we have laid down new Regulations, which on the one hand would give freedom to the Fund Managers and on the other enhance the level of investor protection. The take-over of companies is a

- relatively new phenomenon in our markets and Regulations provide that take-overs take place with greater degree of transparency and in an orderly mannner.
11. A new dimension to the Indian capital market has been international capital flows in response to financial market liberalisation. This is reflected in the following facts:
 - funds raised by Indian companies through GDR and convertible bonds which during the period April 1992 to December 1997 have amounted to a cumulative figure of US\$ 6.5 bio; and,
 - the net cumulative investment made by the foreign institutional investors which during April 1992 to December 1997 amounted to US\$ 7.9 bio.
 12. An integral part of the capital market development is an active debt market. Thus far, the development of an active government securities market in India was constrained by the fact that the rates of interest offered on Government Paper did not closely reflect the prevailing market perceptions. But in the recent reform process, Government Paper is being sold through the mechanism of auctions, at rates of interest, which are very nearly market determined. Thus, a major prerequisite for the development of the Government Securities market has been met. However, even now the major holders of Government Paper are institutions, such as, banks, Life Insurance and others. In order to improve the payments infrastructure governing the functioning of the Government Securities market, the Reserve Bank is putting in place a Delivery Versus Payment (DVP) system under, which the transfer of securities from the seller to the buyer, and the payment therefore by the buyer to the seller would be simultaneous in respect of those who have an SGL Account and a Current Account with the RBI. This will reduce the counter party risk and risk of diversion of funds through security transactions.
 13. Effective and efficient capital market requires a stable and sturdy infrastructure of payment, settlement and clearing system and setting up of depositories. This infrastructure is the lifeline of the securities market as it helps market participants to exercise economic choices by prompt and credible transfer of value. Someone has rightly drawn an analogy of an effective payment, settlement and clearing infrastructure with that of an effective transportation and distribution system, which is required for the efficient movement of physical commodities. With growing activity in domestic securities market, significant increases have been witnessed in both the volume and value transferred. We therefore require a payments system with the principal attributes of accuracy, security, reliability, timeliness and certainty. For its optimal design, the system must address in an integrated manner, the related legal, structural, technological and regulatory issues. As regards the setting up of depositories a draft legislation has already been prepared and is under the active consideration of the Government. Meanwhile, SEBI has already undertaken preliminary steps towards the process of setting up depositories.
 14. Legal infrastructure is also crucial. The legal procedure regarding sale of shares, enforcement of the rights of the holder of the security and rules defining the issuers obligations, etc., must be simple and smooth. As most of the activity in the capital market is in the nature of a private contract, the investor and the intermediary must not get inhibited by cumbersome procedures. Enforceability must be prompt which facilitates confidence in contractual arrangements in the capital market.
 15. In view of the need to meet the requirements of new technology, infrastructure and the legal framework for efficient functioning of financial markets, the work of international co-operative organisations like the APRC and IOSCO becomes more vital and more important than ever before. I am certain that your deliberations in Mumbai will provide crucial inputs into the work of national authorities, and contribute to the emergence of a regional as well as international perspective on the appropriate framework for regulation of financial markets.
 16. I wish all our overseas guests, specially those visiting India for the first time, a very pleasant and memorable stay in Mumbai

Thank you.