

Special Report



← The National Stock Exchange has played a pivotal role in not only ushering in risk management systems and transparency in trading but for whipping up interest among the middle-class potential investors who had hitherto shied away from equity investments, Says Amit Bhanot

NSE

Changing The Way India Invests

Do you remember those days of the stock market when members of the stock exchange had to wrestle out among themselves in the well in an open outcry method to clinch the deal of selling just one share? Thanks to the cartelization of brokers, ambiguity in that process was so deep-rooted that the seller of the share always got the lowest price whereas the purchaser would have to pay the highest price. In fact, if it hadn't been for some interesting and forward looking development taking place in the early 1990s, the state of the Indian bourses would have been the same with decades' old systems and process acutely prone to scams and manipulations and siphoning off the hard-earned money of investors and hurting investment sentiments.

Actually it was due to the infamous 'securities scam' triggered by notorious 'Big

Bull' Harhsad Mehta that the whole paradigm of share trading and investment in the country went through a change. After the biggest securities scam of its kind in the early 90s the Indian stock markets were left licking their wounds and nobody was quite sure about the future of share trading in India. At that time, with Government of India's backing, a consortium of IDBI, one of the biggest financial institutions and several other financial institutions, promoted an altogether new exchange called the National Stock Exchange (NSE) as a tax-paying company in November 1992. The then executive director of IDBI (after that MD and CEO of NSE) Dr. R H Patil had a mission in his mind. It was to give India a "market" which would be transparent and provide easy access to trading to all investors. In fact NSE was an evolution of a high-powered study group's report to attain this objective.

AN AMAZING SUCCESS STORY

In April 1993 it was recognised as a stock exchange under the Securities Contracts (Regulation) Act, 1956. It commenced operations in the wholesale debt market (WDM) segment in June 1994 while the capital market (equities) segment was started in November 1994. Interestingly, despite a very sober and silent start, it surpassed the BSE in terms of turnover and today it controls more than 80 per cent of the total turnover of the share markets. The derivatives' segment of NSE started in June 2000. One interesting fact is that the NSE didn't have its own office and commenced operations from a floor of Mahindra Towers in Central Mumbai.

NSE, in that sense, changed the overall outlook of the share markets in the country. Only after two years of its inception, NSE started online trading which altogether changed the definition and style of trading.

The Challenge Is To Sustain Transparency And Trust

The NSE always claims to have the highest degree of risk management and transparency, and the credibility it has generated across the globe is unparalleled. NSE's technological platform is quite robust and the institution is forward looking in its approach with the implementation of various risk management tools proactively before anybody else does so across the globe. Also, its trading framework is one example which was implemented way back. Despite this, stock market operation remains a live wire event and vulnerable to various manipulations.

Recently some allegations have been reported in the media about the NSE providing faster access to some selected brokers, thereby putting investors at a loss. So sensitive towards its credibility and quest for transparency the NSE is that it wasted no time in filing a ₹100 crore defamation case against the concerned organisations for the alleged misleading report. "The exchange has sought withdrawal of those reports, etc. as well as has made a claim of ₹100 crore (which can be revised upwards). These reports referred to trading mechanisms, etc.," the Exchange said in a statement.

"As is known, since inception the NSE has been maintaining a high degree of surveillance and integrity in its day-to-day operations and strictly adheres to the rules, regulations and guidelines issued by the regulators from time to time," the statement adds. When DSIJ inquired about this episode, NSE sources said that the matter is sub judice, but assured us that the systems of the NSE are quite robust and transparent and adhere to the highest degree of globally relevant risk management norms to safeguard the interests of investors at large.

Importantly, in June this year the RBI has come out with some kind of a flag regarding the volumes that are there in algorithmic (algo) trades and pointed towards "systematic risks" for the same. The RBI in its financial stability report said that "volumes in algo trading and high frequency trading increased substantially in the cash segment of the equity market to about 40 per cent of the total trades in both the exchanges in March 2015." Systematic risk means risk of total collapse of the financial system due to widespread default by financial entities as had happened in 2008. Sources in the NSE said that its system is quite strong to face any challenge of the financial markets' risk and the RBI's report has nothing to do with NSE risk management, which it will prove in court.

The model which NSE gave to the nation was well-honoured by the SEBI and it forced equity market reforms in the country that other exchanges, including the BSE, had to follow. It is quite true that it was the competition and pressure which NSE had put on BSE that forced the latter to change its stance and ultimately start a transparent system of online trading. Importantly, the state-of-the-art technology network that was established by NSE has given it ample experience, so much so that it has been approached by many other countries to

establish such infrastructure for them.

Today NSE is one of the leading exchanges in the world on several key parameters. Due to its robust technological backbone, trillions of trades become possible simultaneously in a flawless manner. NSE now ranks among the top three exchanges, as per a WFE rankings done for the period Jan-Dec 2013, at the global level for stock futures and index futures and options. In fact it ranked No. 1 as far as the index option is concerned as on March 2015. Due

to a de-mutualised structure, its ownership is very much different from its management. At present NSE's footprints spread across more than 2,000 cities with around 2,500 VSATs and 3,000 leased lines. The market capitalisation at NSE is ₹9,930,122 crore as on March 31, 2015, making it the 12th largest exchange in terms of market capitalization. By way of turnover it has clocked a total trade turnover of ₹6,41,53,943 crore during FY15, including capital market, equity futures and options, wholesale debt market and currency future, etc. The number of companies traded on NSE as on March 31, 2015 are 1,603. During FY15 NSE has touched a total turnover of a whopping ₹5,56,06,453 crore in the future and option segment, with an average daily turnover of ₹2,28,833 crore. This includes index futures, stock futures, index options and stock options.

ROPING IN THE MIDDLE-CLASS

Though India seems to be financially vibrant, it is an irony that just around 1.5 per cent of the population holds equity. On the other hand, countries like the US have around 18 per cent equity exposure followed by China with 10 per cent. In such a situation, NSE has a mission in hand to anyhow increase the investment appetite of the Indian public for stocks. After achieving various milestones in the last 25 odd years, NSE's mission is to let the common man of the country also enjoy the fruits of India's growth story.

To do so, the NSE has coined various retail investor-centric products like ETFs, CPSE ETF, Nifty ETF, Bank ETF, etc. and has consciously been spreading awareness about these products among the masses. "It's always been our goal to channelize domestic savings into more productive uses for the country. For the convenience of retail investors, structured products like ETF will remain our focus. Already we are witnessing a spurt in general interest," marks Ms. Chitra Ramakrishna MD & CEO, NSE. The NSE is also aggressively working on spreading awareness among the middle-class for investment avenues like mutual funds, ETS, equities etc. ■