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A study of problems of stock exchange in India

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Abstract
In this paper we will sought out the problems of stock exchange in India and adjust the tone & tune with the market rhythm, external and internal environment. There are so many rules, regulations, standards, procedures and functions formed improved by regulatory authorities for the removal of short comings of stock trading system in order to raising investment with transparency among invertors and traders.

Keywords: Stock, exchange, problems, market, investment

Introduction

The stock exchanges follow all these necessary guidelines and notifications which time to time improved by authority [1]. In spite of that many unethical practices are rampant in Indian stock markets such as artificially increased and dropping the prince of shares. The price of shares are artificially increased before rights issues by circular trading. Gullible members of public who buy such shares find the prices of such shares dropping greatly and lose their money. The other main unethical practices are as follows:-

1. **Unethical practices:** Many unethical practices are rampant in Indian stock markets. Prices of shares are artificially increased before rights issues by circular trading. Gullible members of public who buy such shares find the prices of such shares dropping greatly and lose their money.
2. **Misinformation:** Funds are raised from investors promising investment in projects yielding high returns. But some promoters divert the money to speculative activities and other personal purposes. Investors who invest their money in such companies ultimately lose their money.
3. **Absence of Genuine Investors:** A very small proportion of purchases and sales effected in a stock exchange are by genuine investors. Speculators constitute a major portion of the market. Many of the transactions are carried out by speculators who plan to derive profits from short term fluctuations in prices of securities. This is evident from the fact that majority of the transactions are of the carry-forward type.
4. **Fake shares:** Frauds involving forged share certificates are quite common. Investors who buy shares unfortunately may get such fake certificates. They would not be able to trace the seller and their entire investment in such fake shares would be a loss.
5. **Insider trading:** Insider trading is a common occurrence in many stock exchanges. Insiders who come to know privileged information use it either to buy or sell shares and make a quick profit at the expense of common shareholders. Though many rules and regulations have been formulated to curb insider trading, it is a continuing phenomenon.
6. **Prevalence of Price Rigging:** Price rigging is a common evil plaguing the stock markets in India. Companies which plan to issue securities artificially try to increase the share prices, to make their issue attractive as well as enable them to price their issue at a high premium. Promoters enter into a secret agreement with the brokers.
7. **Thin trading:** Though many companies are listed in stock exchange, many are not traded. Trading is confined to only around 25% of the shares listed on a stock exchange. Therefore the investors have restricted choice and many shares lack liquidity.
8. **Excessive Speculation:** There is excessive speculation in some shares which artificially results in increasing or decreasing the prices. Increase or fall in prices do not have any relationship with the fundamental strengths or weakness of the company. Many small investors are unaware of this fact. They buy shares based on price movements and ultimately suffer losses.
9. **Underdeveloped debt market:** The debt market in India has not been developed to the required extent. There is very little liquidity in the debt markets.

10. **Payment crisis:** Market players indulge in excessive speculation and trading to profit from the increase and decrease in prices. When movement (increase/decrease) in the security prices is contrary to their expectations they are not able to settle the transaction (pay cash for securities bought).
11. **Poor liquidity:** The main objective of listing shares in a stock exchange is to provide liquidity. But in India, out of over 6,400 companies which are listed, 90 percent of trading is restricted to only 200 to 250 actively traded scrips. There is high volatility (fluctuations) in case of actively traded scrips and low liquidity in the others.
12. **Inadequate instruments:** The markets are dominated by equity. Convertible debenture issues are very rare. Preference shares which would be preferred by fixed return seeking investors are almost nonexistent.
13. **Delay in admitting securities:** There is high delay in admitting securities for trading. Sometimes it goes beyond 60 or even 70 days. Therefore, liquidity of investments is affected.
14. **Poor services:** The number of brokers is less and many brokers provide very poor service to investors, there are more than 50,000 sub-brokers and they are totally unregulated. There are many instances of sub brokers committing fraudulent acts and investors losing money.
15. **Broker defaults:** Due to excess speculation in specific shares, broker defaults occur. Such defaults destabilize stock exchanges and results in payment crisis.
16. **Domination of Financial Institutions:** Indian stock markets are dominated by a few financial institutions. The U.T.I., LIC, GIC are the main players in Indian stock markets. The buying and selling by these institutions sets the tone in the market. The market goes bullish if financial institutions start buying shares; on the other hand, it becomes bearish on their selling spree.
    After the liberalization process set in motion since 1991 a number of foreign financial institutions have also entered the market but their role has so far been limited. Even though financial institutions deal in only selected scrips but the whole market sentiment is influenced by their dealings [2].
17. **Poor Liquidity:** The Indian stock exchanges suffer from poor liquidity. A small number of scrips are regularly traded on stock exchanges. Out of over 3,000 scrips less than 500 scrips are generally traded and even out of these 90 percent volume of trade confines to between 200-250 scrips. This means that other scrips have very low liquidity.
    A recent survey into frequency of trading showed that shares of 207 companies were traded every day, shares of 538 Companies were traded once a week, shares of 396 Companies were traded once of fortnight, shares of 954 Companies were traded once a month and shares of 959 companies were traded once a year.
    There is huge backlog of pending deliveries also. This is due to the practice of short selling. The scrips are not delivered for longer periods which again creates liquidity problem. SEBI is trying to frame rules where this malpractice will be curtailed [3].
18. **Domination by Big Operators:** Some big operators influence the sentiment of stock exchanges in India. In Bombay Stock Exchange 3-4 operators used to call the shots. The case of Harshad Mehta is well known in India. He created bullish conditions in Indian stock exchanges in the first quarter of 1992 and BSE sensex nearly doubled in a very short period.
    This artificial increase in prices of shares adversely affected the investing public and people suffered huge losses. It is the weakness of stock exchange's working that some operators can create the sentiment as per their liking.
19. **Less Floating Stocks:** There is a scarcity of floating stock in Indian stock exchanges. The shares and debentures offered for sale are a small portion of total stocks. The financial institutions and joint stock companies which control over 75 percent of the scrips do not offer them for sale.
    The U.T.I, G.I.C., L.I.C., etc. indulge more in purchasing than in selling. It creates scarcity of stocks for trading. The markets tend to be violative and amenable to manipulations in the absence of adequate floating stocks for trading [4].
20. **Speculative Trading:** The trading in stock exchanges is mainly speculative in nature. The operators try to derive benefit out of short-term price fluctuations. At Bombay Stock Exchange upto 5 percent and at other exchanges upto 10 percent transactions are genuine investment deals. The brokers try to create a sentiment in the market which will be beneficial to them. The genuine investors try to keep away from such markets.

Scams in the Indian capital marketing

a. First stock scam of the world.
b. India's first stock market scam.
c. Scams in Indian capital Market: pre and post liberalization.

Cams in Indian Capital market: Pre and Post liberalization

After inception of formal SEs in the later part of nineteenth century, initially, the people were shying away from the market as they had their hands shaken by "Share mania' during 1861-65. After independence, India accepted a mixed economy model wherein the controls and restrictions were imposed on lot of market activities. Foreign investment, institutional investment, corporate behaviour of promoters / directors everything was strictly controlled by the Government. But still a few scams emerged in controlled regime, though having a very low impact on market. But after 1991, when economy was opened for private as well as for foreign players. The scope for manipulation increased. A part from that initially SEBI also was not as successful as it today to control the manipulations and price distortions in the market. This generated an environment where the brokers like Harshad Mehta and ketan parekh took the undue advantage of the machanism and got them involved in the scams [5].

Conclusion

These scans and other unfair trade practices creates unhealthy business environment which leads to decrease the investment habits with fear, un believe and distrust about the share market. This scenario throws light upon the all negative aspects and changed the mood and sentiments of investors in order to non-investment.

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