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# EXPLAINED

Express Archive photo by Vivek Bendre

JULY 23, 1994: Finance Minister Dr Manmohan Singh inaugurates the National Stock Exchange (NSE) by giving a computer command at the Nehru Centre in Bombay.

EXPRESS ECONOMIC HISTORY SERIES

# NSE and NSDL: Institutions that revolutionised Indian bourses

BY SHAJI VIKRAMAN

IN MAY 1992, Finance Minister Manmohan Singh attended a presentation in the conference room on the ground floor of North Block, which houses the Finance Ministry. The presentation was on building a modern new stock exchange for India that would provide competition to the country's other stock exchanges, including the Bombay Stock Exchange (BSE), the biggest and oldest in Asia.

The presentation was made by Ravi Narain, who had been handpicked for the assignment, and two consultants — apart from Narain's boss from his days at the Industrial Development Bank of India (IDBI), R H Patil, and then chairman of IDBI, S S Nadkarni. The blueprint for the proposed exchange, the National Stock Exchange (NSE), was laid out — and the concept was finalised after the team chose the Swedish model of a for-profit exchange, breaking from the prevalent broker model. Other key elements were an order-driven system rather than a market driven one — to boost liquidity, and to ensure, so to speak, one order book for the nation.

To address the concerns about opaque pricing — which was an irritant to many investors across the country — the team also decided to go in for transparent, screen-based trading, which presented further challenges of national telecom connectivity and changes in the rules of governance.

Soon after the presentation, Singh and G V Ramakrishna, chairman of the newly empowered securities market regulator, SEBI, approved the plan. Ashok Desai, Chief Consultant in the Finance Ministry, had earlier visited the BSE, and realised that a modernisation plan the exchange had committed to was a sham — and upon his return to Delhi, backed the new exchange. The NSE got going by November 1994, promoted by state-owned institutions led by IDBI, LIC and insurance institutions. However, it was decided right at the start that the running of the exchange would be based on private sector practices, and geared towards generating profits.

When it opened, the NSE had only a few members — mostly youngsters, including professionals who had been fobbed off by the closed club of stockbrokers in the country's bigger exchanges. They came on board after NSE asked them for just a deposit, unlike the premium membership cards of the other exchanges. A set of criteria was laid down for membership including an exam. In the early days of trading, it was only retail investors punching in orders — and with a daily turnover of just Rs 10 crore to Rs 12 crore compared to the Rs 200 crore to Rs 250 crore of the BSE, even the top institutional investors owned by the government weren't ready to participate, saying there was no liquidity.

But the tide turned soon. Volumes started rising, and in eight months, the new stock exchange equalled the daily turnover of its rival, the BSE. By the time the NSE completed a year, it had surpassed the BSE, and after 18 months, its daily turnover had surged to one-and-a-half times that of the older exchange. The big boys who had blocked the reforms in the BSE joined the new exchange, as did large institutional investors. Liquidity had been built up, and the exchange soon attracted foreign portfolio investors too. Once the NSE took off, it signalled one of the biggest successes of the reforms programme of the 1990s, paving the way for other exchanges to follow suit, and offered a platform for Indian firms to raise capital with the opening up of the economy.

Alongside the NSE, the other critical element of reform in India's financial markets and sector starting in the '90s was the building of the National Securities Depository Ltd or NSDL, a central depository that had been promised in Manmohan Singh's first Budget in 1991. Investors were often frustrated because of problems of delivery of shares and authentication, with physical certificates getting lost or mutilated — and the government moved faster after a case involving duplicate certificates of one of India's top listed firms, Reliance Industries.

Initially, the plan was to do electronic trading, but maintain the physical share certificates in a huge storehouse of the Stock Holding Corporation of India, which had been given the mandate to promote the depository. But it was decided to opt for electronic (paperless) certificates or shares, bonds, mutual fund units or debentures after the World Bank pointed out its success in countries including in Scandinavia. But the law in India didn't provide for this — so the government had to introduce one to ensure transferability of shares in electronic form. Work on the project began in mid-1995 — when P J Nayak was Joint Secretary in the Ministry of Finance and C B Bhave was Senior Executive Director at SEBI — but the law could not be passed during the P V Narasimha Rao government's term. The reform was ultimately pushed through in the form of an ordinance when P Chidambaram was Finance Minister of the United Front government.

By 1996, the NSDL started operations. And helping push this was D R Mehta, the SEBI chairman, who advocated a phased approach to enabling companies to switch over to shares in electronic form, rather than ram it through by a fiat. By 1998, it was made mandatory for all institutional investors to trade in electronic form, soon to be followed by others. Last year (2015), NSDL achieved a milestone — Rs 100 lakh crore in the value of securities held by the depository, reflecting the dramatic transformation in the Indian securities market landscape and the success of the financial sector reform programme.

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### FROM WHERE TO WHERE

**NSDL WAS** inaugurated in November 1996, and demat trading started in December 1996 after the enactment of the Depositories Act. By June 1997, the value of securities in demat form topped $1 billion, and today, it stands at $1,846 billion.

**NSE STARTED** its equity segment operations in November 1994 after being incorporated in November 1992. The Nifty50 was launched in April 1996. In May 2015, it touched a daily turnover of Rs 43,621.27 crore — compared to the mere Rs 10 crore to Rs 12 crore daily in 1996.

Link to the above article “NSE & NSDL: Institutions that revolutionised Indian bourses”:
http://indianexpress.com/article/explained/manmohan-singh-indian-economy-indian-rupee-devaluation-nse-nsdl-stock-exchange-bombay-stock-exchange-2924639/