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National Stock Exchange is at a crossroads as it faces renewed competition from BSE and a challenge to channelise more savings into equity markets

At NSE, it's about speed & tech now

9000
8000
7000
6000
5000
4000
3000
2000
1000
1994

Anto T Joseph gives a look

In early nineties, Pitroos Josephy brothers, which listed Bombay Stock Exchange in the historic Fort area, a few minutes' walk from the Victoria Terminus, was still the final destination for stock brokers. The money-indebted brokers continued to flock at the shouting rings as the Ashokdas bowed even when it was gasping for breath under the Big Bull's near-total grip. On the other hand, India was on the verge of an economic crisis and an imminent default, before it made conscious efforts to unshackle the closed economy and reluctantly opened up its gates for global players.

When a brand-new tech-savvy institutionalised bourse swung into operations in 1994, bringing trust and transparency to the firm, it was rewriting the history of India's fledgling equity markets. Amid the cacophony that fixed your stock price at the Bombay Stock Exchange (now called BSE), transparency was the sacrificial goat.

NSE, the world's first fully electronic exchange, changed the entire landscape of Indian stock markets, says Shankarshan Bhat, associate professor of finance at IIM Singapore. "NSE was set up as a completely corporatised exchange, and brought in tremendous amount of transparency helping the cause of corporate governance in the country. At the time more established international bourses were still manual exchanges, like traders' clubs."

In March 1996, NSE's market capitalisation stood at Rs 4,63,359 crore. Cash market average daily turnover was around Rs 17 crore in 1994-95. Just about 670 companies were trading then.

Winds of change swept through India over the next two decades. Probably nothing chased India's growth in post-liberalised era as closely as NSE. As India's economy grew leaps and bounds, NSE's m-cap ballooned to Rs 98,62,454 crore on September 15, 2015, despite the recent fall in stock prices. Cash market average daily turnover has shot up to Rs 17,267 crore. Number of companies trading has more than doubled to 1,533, and around 1.9 crore registered for trading on the bourse.



NSE has continued to remain the largest exchange in stock index options trade across the globe, ahead of Chicago Board Options Exchange. In the individual stock options, NSE topped the Asia Pacific region, with 1.1 crore contracts. It is ranked sixth globally in individual stock options. While the stock exchange continues its successful journey, it was also hit by a few controversies during last few years.

Cut to October 5, 2012. A freak trade on NSE - what they called a 'six finger error' - fumbled the market, and the exchange shut trading for around 10 minutes.

"But what is surprising is that within no time NSE could find out the human error involved in it. It also managed to get the IP address of the terminal from where the freak trade was executed," says a Mumbai-based market watcher.

As it turned out, a dealer working with a Mumbai-based brokerage had committed a blunder. Instead of putting in a usual sell order of Rs 65 crore on NSE, he punched in Rs 650 crore, bringing the market down by 16% and obliterating nearly Rs 1.20 lakh crore of investor wealth in a dash of a moment and triggering stop losses for many traders.

Nifty index plunged 610 points (or 14%) within two minutes - between 8 am and 8.51 am. According to the findings of a probe conducted by NSE, the crash was not an outcome of technical glitch in the system, but a result of 59 erroneous orders placed by the brokerage.

An internal probe by NSE solely

blamed the brokerage and systems failure at the brokers' end for the crash, while a probe conducted by the market regulator set its point on that "even in case of a failure of risk management at the end of the stock broker, order-level checks at the stock exchange would have prevented such error".

The recent controversy with Moneylife magazine over NSE's high frequency trades (HFTs) saw the Bombay High Court dismissing the exchange's defamation suit and directing it to pay Rs 50 lakh in punitive damages. This stemmed from an article published by Moneylife that high frequency trading (HFT) or algorithm based trading in NSE jeopardised the interest of retail investors.

"The article is completely imaginary. Time and again we said that the article has failed to substantiate its content. Everything that NSE has implemented is in sync with norms / guidelines issued by the regulator," claimed a spokesperson.

The reforming BSE, under its MD and CEO Anshul Kumar Chaudhan, has taken the battle to its enemy camp, creating ripples in the market. BSE took on the two foundations that NSE was built on - technology and speed. Chaudhan, an old hand at NSE long before he took charge at BSE, brought in joint ventures with foreign bourses to give his exchange a technological edge.

"Speed is of essence in stock exchange business. Initially we were slower than NSE. But brokers tell us that we are 10 times faster now. We have been very transparent. We give response time on each order on BSE website. If our competition does not make it transparent and then

claim that they are the fastest, how will you corroborate it?" asks Chaudhan.

BSE used to run a system called BOLT, which was developed by CMC. "In 2012-14, we completely moved to Deutsche Borse system, which runs on Linux, open source, and basically on Intel boxes," he says.

NSE, however, counters that they are the fastest. "Please note that we have recently made modifications in the system. Our understanding is that the system is the fastest available in India today. We will start publishing the data on our website from October 1, 2015," says the NSE spokesperson.

NSE has continued to enjoy a leadership position in most of the market segments it is currently in. While in the equity derivative segment it holds 80-85% share, it has around 60-65% share in the equity/cash market. In interest rate derivatives, it holds a similar share. In currency derivatives, BSE has pushed its way up, though NSE is holding 30-40% share.

As India struggles to channelise more savings into the equity markets, it is a long road ahead for NSE.



Prime Minister	Presented Budget	Market Capitalisation (Rs in Crores)
Manmohan Singh	July 6, 2009 June 1, 1998 June 21, 1999 Feb 29, 2000 Feb 28, 2001 Mar 16, 2002	Rs 1,61,350 crore (2009) Rs 98,62,454 crore (2015)
Pranab Mukherjee	July 6, 2009 June 1, 1998 June 21, 1999 Feb 29, 2000 Feb 28, 2001 Mar 16, 2002	Rs 1,61,350 crore (2009) Rs 98,62,454 crore (2015)
Yashwant Sinha	July 6, 2009 June 1, 1998 June 21, 1999 Feb 29, 2000 Feb 28, 2001 Mar 16, 2002	Rs 1,61,350 crore (2009) Rs 98,62,454 crore (2015)
Jaswant Singh	July 6, 2009 June 1, 1998 June 21, 1999 Feb 29, 2000 Feb 28, 2001 Mar 16, 2002	Rs 1,61,350 crore (2009) Rs 98,62,454 crore (2015)
P Chidambaram	July 22, 1996 Feb 28, 2004 Feb 28, 2007 July 8, 2004 Feb 29, 2008 Feb 28, 2005	Rs 1,61,350 crore (2009) Rs 98,62,454 crore (2015)
Arun Jaitley	Presented Budget Feb 28, 2005	Rs 1,61,350 crore (2009) Rs 98,62,454 crore (2015)

DOWN THE EQUITY LANE

THE GIANT LEAP 1995-2015

Rs 1,61,350 crore (2009) market capitalisation March 1995
 Rs 98,62,454 crore (2015) market capitalisation September 1, 2015
 Rs 17 crore average daily cash market transactions in 1994-95
 670 companies trading then
 1,533 companies trading on bourse