

Annexure 1-1: Elements of Market Design in Indian Securities Market, 1992 and 2003

Features	Corporate Securities			Government Securities	
	1992	2003		1992	2003
Regulator	No Specific Regulator, but Central Government oversight	A specialized regulator for securities market (SEBI) vested with powers to protect investors' interest and to develop and regulate securities market. SROs strengthened.		RBI participates in the market as well as regulates it.	Unchanged. SROs emerged.
Intermediaries	Some of the intermediaries (stock brokers, authorized clerks and remisiers) regulated by the SROs.	A variety of specialized intermediaries emerged. They are registered and regulated by SEBI (also by SROs). They as well as their employees are required to follow a code of conduct and are subject to a number of compliances.		Brokers / dealers with agency problems	Brokers of specified exchanges authorized to trade. Primary Dealers offer two-way quotes.
Access to Market	Granted by Central Government	Eligible issuers access the market after complying with the issue requirements.		Authorised by Parliament. Automatic monetization prevalent	Unchanged. Automatic monetization discontinued
Pricing of Securities	Determined by Central Government	Determined by market, either by the issuer through fixed price or by the investors through book building		Determined by RBI	Determined by market through a system of auctions (uniform /multiple price/yield). Small proportion available at prices determined by RBI
Integration with International market	No access	Corporates allowed to issue ADRs/ GDRs and raise ECBs. ADRs/GDRs have two way fungibility. FIIs allowed trade in Indian market. MFs also allowed to invest overseas		No access except External borrowing by the Government.	Unchanged. FIIs permitted to invest in government securities
Trading Mechanism	Open outcry. Available at the trading rings of the exchanges, Opaque, Auction/negotiated deals	Screen based trading system, Orders are matched on price-time priority, Transparent, Trading platform accessible from all over country		Negotiated deals over telephone	Negotiations over telephone and on screen, Also Screen based trading system where orders are matched on price-time priority.
Aggregation order flow	Fragmented market through geographical distance. Order flow unobserved.	Order flow observed. The exchanges have open electronic consolidated limit order book (OECLOB).		Fragmented market through geographical distance. Order flow unobserved.	Unchanged. Limited use of OECLOB
Anonymity in Trading	Absent	Complete		Absent	Absent except for OECLOB market
Settlement System	Bilateral	Clearing House of the Exchange or the Clearing Corporation is the central counter-party		Bilateral	Clearing corporation is counterparty to most of the trades. Bilateral settlement continues.
Settlement Cycle	14 day account period settlement; but not adhered to always	Rolling settlement on T+2 basis		Spot	Rolling settlement on T+0 to T+2 basis
Counterparty risk	Present	Absent		Present	Absent for trades settled through clearing corporation
Form of Settlement	Physical	Mostly Electronic		Physical	Mostly Electronic through DvP
Basis of settlement	Bilateral Netting	Multilateral Netting		Gross	Unchanged. However, net in funds in respect of settlement through clearing corporation.
Transfer of securities	Cumbersome. Transfer by endorsement on security and registration by issuer	Securities are freely transferable. Transfers are recorded electronically in book entry form by depositories.		Transfer by endorsement	Securities are freely transferable. Transfers are recorded electronically in book entry form in SGL
Risk Management	No focus on risk management	Comprehensive risk management system encompassing capital adequacy, limits on exposure and turnover, VaR based margining, client level gross margining, on-line position monitoring etc.		No focus on risk management	Comprehensive risk management mechanism in respect of transactions settled through clearing corporation
Derivatives Trading	Absent	Exchange traded futures and Options available on two indices and select securities. Interest Rate Future Contracts with underlying notional 91 day T bill, 10 year coupon & zero coupon bonds.		Absent	Absent. Repo transactions permitted.