4

Securities Markets

Securities markets in India comprise equity, debt, foreign exchange and derivatives markets, including futures markets in commodities. These markets are key components of the financial sector because of their transparency in disseminating price information. Markets help in discovery of the price of assets and the price of risk in the economy. They help to shape the behaviour of firms, and the behaviour of owners of capital in making decisions about which firms and industries to allocate scarce capital to.

4.2 Over the decade of the 1990s, many important policy initiatives have focused on fostering liquidity and efficiency of the securities markets. In the recent period, the two major aspects of changes in India's securities markets have been:

- Structural reforms, which seek to foster liquidity and market efficiency, and
- The impact of these reforms, and of events in the economy, upon prices and liquidity.

4.3 In the equity market, major structural reforms included the completion of the move to rolling settlement, and the start of the equity derivatives market. On the bond market, the recent reforms consisted of controlling settlement risk in the telephone market, using the new Clearing Corporation of India Ltd (CCIL), and initiating a new transparent, screen based market for secondary market trading in Government of India (GOI) bonds. These changes took place in a backdrop of significant market volatility owing to developments in the economy.