

Outlook

4.47 In coming months, considerable investment appears to be in the pipeline, reflecting confidence by domestic and foreign investors in the economy. The Indian securities markets are well equipped to engage in information processing and intermediation, and support the investment activities of 2006-07. In contrast with the difficulties of forward-looking investments by bank-dominated financial systems, the Indian financial system has been effective in delivering capital to areas with high *prospective* growth, such as software or biotech, through the equity market.

4.48 How far securities markets will support investment, and hence how far investment will be stepped up in the coming months and years will also depend on the further improvements that will be made in the securities market architecture, including:

- Improving disclosure, trading technology and policies on derivatives trading so as to narrow the gap in the secondary market liquidity between the largest 100 companies and the rest.
- Increasing the size of the Indian derivatives market by reviewing the size of limits and the issue of Direct Market Access (DMA). Limits which were established in the late 1990s (at a time of cautious exper-

imentation with the introduction of derivatives trading in India), have clearly become out of touch with the growing market size. DMA involves computerised trading systems, put into place by investors, where sophisticated software places trades based on human guidance at the level of trading strategy. DMA is particularly critical when it comes to assuring liquidity for small companies and for options trading, where trading based on labour-intensive practices is not cost efficient.

- Removing the problem of multiple bids by individuals seeking to profit from the quota for retail investors at the discretion of merchant bankers or the government by considering a pure auction for price discovery at the IPO, in much the same manner as the secondary market functions.
- Strengthening the investigation and surveillance process, so as to have a steady stream of success in enforcing rules, and punishing wrongdoers, with well-prepared and well-argued cases that are upheld by the courts.
- Improving the functioning of the bond market and bringing it at par with the architectural strengths of the equity markets.