

Listing on Stock Exchanges



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BSE is celebrating the completion of its 140 years in 2015. BSE is the oldest exchange in Asia and the largest exchange in the world with more than 5,650 companies listed. The market capitalisation of the companies listed on BSE exceeds INR 100 lakh crore or close to USD 1.6 trillion. It is one of the largest markets in the world in terms of instruments traded on

the exchange – from equity, debt, currency derivatives, interest rate derivatives and equity derivatives to SME. BSE has plans to get in to commodities trading as well. BSE is also planning to set up a new exchange in the International Finance Centre (“IFC”) at GIFT City, Gandhinagar, Gujarat, India.

Any institution that survives for more than a century, has seen ups and downs. It would have reinvented and reinvigorated itself many times over to stay relevant with the changing times and technologies. The needs of the society had to be kept in mind while evolving. Credit must go to the people who were at the helm of affairs of this cherished institution for over a century, who nurtured this institution and continued to direct it in areas where it remained socially relevant throughout its 140 years. For the record, the BSE is one of the rare institutions that has witnessed the British Raj and the Indian Independence Movement, it has seen height of license raj and liberalisation. Interestingly, it was one of the early nationalist institutions named as ‘Native Shares and Stock Brokers Association’. When one realises that it was set up in 1875 and is more than 10 years older than Indian National Congress, the oldest political party in India, one gets an idea of the contribution this revered institution has made to Indian society.

BSE has experienced the nationalisation of banks and emergence of high tech companies. Over 140 years, BSE has been a part and parcel of trials and tribulations of India and all its citizens. It has been a confidante and a mirror of Indian society. It has been a reflection and aspiration of India. It has been a witness to the elation and ecstasy of Indian masses and has cried with India in times of despair. It has been a trusted servant of Indian society for glorious 140 years.

BSE has represented India in myriad of ways and will continue to do so for a long time to come. Such institutions are set up and nurtured very rarely in a country and it is a testament to India’s thought leadership in having market mechanism as a fundamental pillar of

democracy.

Despite being a socialist republic throughout its independence, the Indian government allowed BSE to operate without a halt. Unlike other socialist countries in Asia, Europe and Latin America, where stock exchanges were closed down when socialist regimes came in place from 1920s to 1990s, India continued with its tradition of nurturing markets. In some ways, the difference was perhaps, democracy in India vis-à-vis authoritarian governments in most socialist countries in those days. Markets are truly democratic in their approach and welcome new blood and new ideas. Indian democracy was more entrenched than its socialist ideals which meant that the government didn’t take markets as a rival philosophy which may overcome the socialist ideals. It was a difficult co-existence and in some sense counter intuitive. However, given India’s culture of taking all thoughts along, it allowed BSE to survive and grow. Many visitors to BSE from eastern blocks, Latin American socialist economies get surprised at the continual operation of BSE for 140 years despite all the tumult that was present in the formative years after Indian independence. I would urge future researchers to take up the matter in more detail if they could access papers within the government and other policy making bodies relating to operations of markets post-independence.

BSE and other exchanges survived the socialist thoughts post-independence albeit with a battered image and lower importance. Banks became more important in contrast due to their ability to directly lend to desired sectors and participants. However, the importance of exchanges in an economy to channelise savings of the householders in to productive capital and provide good returns was slowly recognised by the general populace. Each large city started asking for a stock exchange for itself and by 1991, India already had 22 exchanges.

The battle of ideas was won not by argument but by giving better experience. Sometimes, elegant intuitive theories may not work well in reality. Banks were supposed to be better. However, markets gave better returns and easier finance for entrepreneurs who wouldn’t get finance otherwise. Indian stock exchanges regained importance in the 1970s and 1980s with FERA companies and new generation entrepreneurs coming up and creating new industries, setting up investor rewards frameworks which were not seen before. Later, 1990s witnessed an emergence of IT companies in the market and change the perception of how the business was done in India and showed a glimpse of the glorious future that awaited India.

However, the traditional exchanges did not keep pace with the new wave of organisational innovations that came about with new management theories. Primary mode of organisation within exchanges remained cooperative and not for profit in India as well as elsewhere in the world. Exchange operations were conducted

therefore on a cooperative basis as associations of brokers and not as for-profit organisations. The cooperative structure was important under a social context of socialism and a tradition of European guilds. However, the cooperative structure with all its elections and decision-making by elected representative who were by definition in power for a short duration, reduced the strategic impetus for the exchanges as organisations.

Changes became fewer over a period especially in an era, when changes were accelerating. Self-regulation became difficult to manage. Issues relating to Conflicts of Interests in self-regulatory organisation came to the fore every now and then. The corporate structure was becoming more efficient. For-profit exchanges was not a bad word any longer. Pursuit of profit even by exchanges became acceptable, even desirable, in India.

Computerisation of working of exchanges was at a nascent stage, a new set of corporate exchanges were allowed to come up all over the world. Traditional cooperative exchanges were allowed to convert themselves into corporates within a timeframe. City based exchanges were allowed to go nationwide and a single electronic, nationwide order book started coming up. Over the entire period, BSE kept pace with the times and computerised itself. Since 1995, it stopped the trading on its traditional floor and became screen based. It had already computerised its back office functions in 1980s. Automation of trading and nationwide access saw a huge increase in trading volumes and a reduction of brokerages. The emergence of a rival corporate exchange in mid 1990s ensured BSE had to also change its management framework from cooperative to corporate.

New products like index and equity derivatives emerged as the mainstay of business. Speed of execution, access throughout the country, depositories, real time risk management, settlement guarantee, etc. became very important. New nationwide commodities exchanges came up and software vendors started setting up stock exchanges.

Under the guidance of SEBI, BSE changed its character quickly and became a force to reckon with in its new avatar. It completely overhauled the technology and became the fastest exchange in India with 200

microseconds response time. It also implemented open source technology to take advantage of the high tech developments taking place in the world and also reduced its cost of operations, leaving other exchanges far behind.

It is now an undisputed leader in listing of new stocks with its latest technology, SME, Mutual funds distribution, offer for sale, debt distribution and several other areas where it has a market share of more than 80% or more in most businesses. Even in areas like currency derivatives where in BSE entered recently, it has captured a huge market share in a short span of time from the established competition. In effect, BSE has once again changed itself to the needs of time with innovations such as mobile trading, algorithm trading, etc. on a fair and efficient basis.

As this juncture, when India looks to be full of potential once again, exchanges are at cross roads. What should be their priorities? Should they continue to keep on trading derivatives and other instruments incessantly or should they help India solve its problems? I have no doubt that any public institution that doesn't take in to account the needs of the society it operates in and solves its problems, will become less relevant in the time to come. India needs to create large number of jobs every year going forward, approximately 25 to 30 crore new jobs in next 20 years. These jobs cannot be created by doing merely trading of lakhs of crores of rupees every day. The needed jobs will be created only if the exchanges help entrepreneurs, governments, municipalities, and other institutions to raise funds for their set up and growth. India needs to raise USD 150 billion or close to INR 10 lakh crore every year from capital markets for the next 20 years to do justice to India's growth potential and creating jobs. BSE is committed to help Indian create jobs and get the best returns for the investors who invest in India's growth. BSE has now reinvigorated itself and has proved itself worthy of the title of Premier Exchange of India over 140 years. BSE will be in the service of the nation for a long time to come and work with the regulators and governments to solve the issues that India faces.
