



Dear *Brij Chandrashekar*

Please refer to your letter dated 26th August, 2010 regarding the depth of the Indian Securities Markets.

2. I have got the matter examined by SEBI, the market regulator, whose reply is attached. It may be noted that Indian capital markets have come a long way to emerge as one of the best regulated, technology driven and transparent markets in the world in the last two decades or so.

3. The Government took a slew of measures including the establishment of institutions like SEBI, Depositories and Clearing Corporations to make the markets strong and attractive. This has, inter-alia, resulted in the market capitalization increasing from 45% of GDP as in April 2004 to nearly 159.45% of GDP (annualized GDP) in October 2010. This has also improved the effectiveness and efficiency of financial intermediation. As at the end of September 2010, BSE and NSE occupy the 9th and 10th rank respectively among world's stock exchanges in terms of market capitalization. NSE has also the 15th largest turnover among the various global markets. This growth reflects the effectiveness and efficiency of financial intermediation.

4. The focus of next generation regulation in securities markets is on inclusive growth, i.e. broad basing and deepening of the market with more innovative products and technology for sustained growth through healthy market competition. The Ministry of Finance has been taking various measures in this direction like, investor education, promoting qualified investment advice, setting up a trading platform for small and medium



CONTINUATION SHEET

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scale enterprises, mechanisms for effective investor grievance redressal etc.

5. I appreciate your inputs and interest in further deepening of the markets.

With regards,

Yours sincerely

(Pranab Mukherjee)

**Shri Rajeev Chandrasekhar,
Member of Parliament (Rajya Sabha),
211, North Avenue,
New Delhi- 110001.**

Encl: As above



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Securities and Exchange
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GENERAL MANAGER
DERIVATIVES AND NEW PRODUCTS DEPARTMENT

DNPD/24474/10
October 22, 2010

Ms. Rose Mary Abraham, IES
Assistant Director (SM)
Department of Economic Affairs
Ministry of Finance
North Block, New Delhi.

Dear Madam,

Sub: Shallow Indian Stock Market

This refers to your letter F.No.15/14/SM-2010 dated August 31, 2010 on the above subject.

1. Hon'ble MP has referred to the reply dated August 10, 2010 of Hon'ble Minister of State for Finance in Rajya Sabha. The said reply provided contribution of top 'N' clients, not investors as understood by the Hon'ble MP, to certain percentages of turnover, at NSE in a quarter. The interpretation of data and the consequent findings would be different if a distinction is made between 'traders' and 'investors'. The investors invest; they do not churn their holdings on daily or hourly basis. It is natural that those who trade every hour would have a predominant share in trading volumes. In fact, some clients undertook as high as 3.65 crore trades at NSE in 2009-10. There were 23020 clients who did more than 10,000 trades each during 2009-10. It is not unusual if these clients account for a predominant share in trading volume. This in no way reflects the reach of the securities market. It rather reflects that a large percentage of clients are investors and hold their investments for a longer time horizon. There were about 15 lakh clients who did 1 to 5 trades during the year 2009-10. About 64.34 lakh clients did not undertake any trade during the year. The clients who do not undertake any trade or undertake a few trades are the investors who take a longer term view on their investments, which is something that is a desirable balance between investors and traders. These findings are evident from the frequency distribution of trades in cash segment of NSE for 2009-10:

Frequency Distribution of Trades in Cash Segments of NSE (2009-10)

No. of Trades	No. of Clients	% Share of these clients in turnover
= 0	6,434,000	0.00
>0≤5	1,462,125	0.32
>5≤10	571,113	0.20
>10≤50	1,427,265	1.05
>50≤100	565,320	0.98
>100≤1000	1,319,461	10.34
>1000≤10000	355,796	27.69
>10000	23,020	59.41
All	5,724,100	100.00

2. Hon'ble Minister has replied that 50% of trading volume in cash segment of NSE came from 451 clients. This 451 included 196 institutional clients who represent millions of individual investors. In a mature and advanced market, individuals participate through institutions. A large

CAH.

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share of a few clients in turnover is not unusual and is not an indication of the reach of the market.

3. The reach of the market is generally ascertained from the number of individual investors. There is no reliable estimate of the number of investors in the securities market. However, there are very reliable proxies to indicate the reach of the market. The reliable proxies are the number of clients registered with Exchanges, the number of beneficial owner accounts with Depositories, the number of folios with Mutual Funds, etc. These proxies indicate substantial improvement, even when post-crisis numbers are compared to the pre-crisis numbers.

Parameter	Number as on	
	31.03.2007	30.09.2010
Clients registered with NSE (Cash Segment)	4,445,588	11,972,318
Clients registered with NSE (Equity Derivatives Segment)	3,542,238	10,866,871
Beneficial Owner accounts with Depositories	10,271,490	17,936,665
PIN Codes having demat accounts with NSDL*	19,262	21,126
Folios with Mutual Funds	30,366,707	47,140,177

*No. of PIN codes covered in the client addresses out of 25,901 PIN codes in the country as on 31/3/2007 and 26,087 PIN codes as on 30/9/2010.

4. The depth and breadth of the market are measured by certain standard parameters. The changes in these parameters indicate improvement over time as under:

Parameter	Unit	For the year	
		2000-01	2009-10
Market Capitalization at NSE (at the end of year)	` crore	657,847	6,009,173
Turnover at NSE (Cash Segment)	` crore	1,339,510	4,138,024
Turnover at NSE (Equity Derivatives Segment)	` crore	2,365	17,663,665
No. of Stocks traded for more than 100 days	Number	958	1,305
Impact Cost of NIFTY (average of March)	percentage	0.28	0.06
Resources Mobilised through public and rights issues.	` crore	6,108	57,555

5. The securities market provides a high degree of competition, where no buyer or seller has influence over the price. Approximately 5 lakh clients trade on a daily basis on NSE in the cash segment. The anonymous order driven trading system does not reveal the identities of the persons to the brokers or on the trading screen ensuring equal treatment to big or small clients.

Yours Sincerely,

S. Prasad
Sujit Prasad