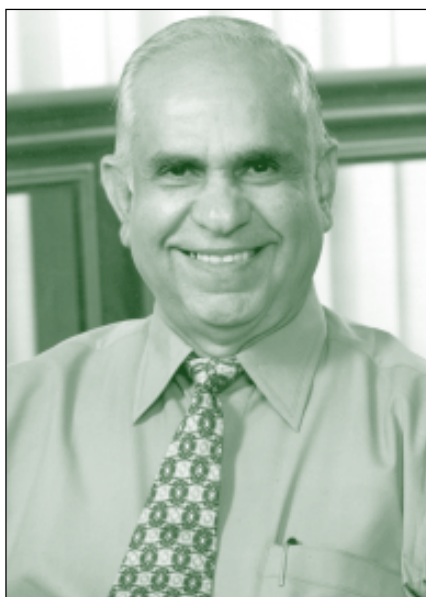




SECTION 2 : INDUSTRY REVIEW

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A National Market for Small Caps Companies

India has the largest number of listed companies at about 10000 and 23 Stock Exchanges. These numbers were significant at one point of time but with globalisation of Indian economy and introduction of on-line trading on stock exchanges, these numbers have lost their pride. Out of about 10000 listed companies, a majority of them are small cap companies having paid-up capital of upto Rs.20 crores. The daily trading on the Stock Exchanges is, however, confined only to about 15% to 20% of the listed companies and the remaining companies are either thinly or infrequently traded or not traded at all.

Of the 23 recognized stock exchanges, in the country there has been virtually no trading at about 18 stock exchanges during the last two years. This is mainly because the Regional Stock Exchanges, which were earlier operating within the predefined geographical territories, have lost relevance due to technological developments, like on-line screen based trading, improved connectivity through leased lines, VSATs etc. Due to these developments, entire India has become one market and the liquidity at the major stock exchanges can be easily accessed by the investors from any remote location in India. Consequently, the liquidity in the largely traded scrips has shifted to the major stock exchanges and a large number of scrips of companies which are listed on the regional stock exchanges do not witness any trading. The Regional Stock Exchanges have more or less closed down their trading platforms. The small investors, who have invested in these companies, have consequently no exit route. Also, the promoters of these companies cannot raise fresh capital from the investors in the absence of any price discovery mechanism on the Stock Exchange. This also makes it extremely difficult for new entrepreneurs to access the capital market. This not only affects investors, promoters of companies, intermediaries in the capital market but overall industrialization, employment, Govt. revenues etc. in the country.

With a view to create liquidity in the illiquid or thinly traded scrips listed at various RSEs, BSE has suggested a scheme which envisages creation of a single order book for small cap companies having paid-up capital upto Rs. 20 crores and allowing trading in these companies on trading platform. The salient features of this scheme are discussed as under:

- **Eligible scrips:** Scrips listed and/ or traded at BSE, RSEs & Inter-Connected Stock Exchange (ISE) with paid-up capital upto Rs. 20 crores

would be transferred to a new group called 'S' group. However, the scrips forming part of BSE "A" group would not be included in this group. Also, scrips in BSE "Z" group and scrips of the companies which have failed to pay listing fee etc., to the RSEs/ISE would not be included in this group.

- **Trading platform:** The small cap quality scrips identified for the purpose of a single order book in "S" group would be traded on the existing BSE On-line Trading (BOLT) system.
- **Mode of participation by RSEs:** RSEs can participate in trading in this group through subsidiary companies floated by them, which are already members of BSE. RSEs, which have not formed subsidiary companies, can become full-fledged members of BSE. Alternatively, they can trade and settle trades in this group through their Clearing Houses, after entering into an agreement with the BSE.
- **Clearing, Settlement, Surveillance & Risk Management:** These functions would be managed by BSE. The trades in this group would be subject to intra-day trading and gross exposure limits and margins as applicable to the trades in other groups of scrips on the Exchange.
- **Handling of Defaults:** In the event of default by any member of subsidiary of RSE or Authorized Participant of RSE / ISE, first the TGF of the respective subsidiary/ RSE/ISE would be accessed and then that of BSE.
- **Compliance of Listing Agreement:** This would be the responsibility of the respective RSEs for the scrips listed on their Exchanges. BSE would continue to monitor compliance with the Listing Agreement in respect of companies listed with it.
- **Market Making:** The members of BSE/ISE/ RSEs would be allowed to do market making in scrips listed on their respective Exchange.
- **Turnover in the RSEs scrip :** The turnover in scrips listed on RSEs and included in this group would be counted as the turnover of the respective RSE.
- **Listing fees :** RSEs would continue to collect listing fees from the companies listed, with them.
- **Sharing of transaction Charges:** BSE may share with RSEs, the transaction charges recovered by it on the turnover generated by subsidiaries companies/ RSEs/ISE in this group.
- **Representation of RSEs:** An Advisory Committee, comprising of representatives from various RSEs, would be constituted to give recommendations on various key operational aspects relating to this group.

Advantages :

- **Investors:** The small investors across the country would be able to invest or exit from these scrips given the increased liquidity due to single national order book for such scrips with a very large participation.

- **Companies:** The promoters companies, would be able to raise fresh resources from the capital market based, inter-alia, on their turnover and price performance on the Stock Exchange. This would also facilitate new promoters of small cap companies to raise capital through Initial Public Offerings (IPOs)
- **The Exchanges:** The trading interest in scrips, which are dormant but having potential, would be generated, which would improve overall trading volumes of BSE, RSEs and ISE. Also, RSEs/ISE may discontinue their trading platforms, if required, which would result in substantial cost savings for them.

Conclusion :

In terms of the solution suggested by BSE, RSEs/ ISE members would be able to trade in appx. 2300 scrips of small cap companies listed on BSE, which are currently recording an average daily turnover of about Rs. 100 crores at BSE alone. This coupled with turnover in scrips of small

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cap companies listed on RSEs can easily generate a daily turnover of approximately over Rs.300 crores in this group.

The arrangement for sharing transaction charge with RSEs would give them a regular income stream. Also, as the turnover in scrips of companies from RSEs would be counted as turnover of respective RSE, thus would encourage the companies to continue the listing at RSEs.

The BSE solution is considered a win-win proposal for all concerned as it does not require fresh investment for setting up a new trading platform and it also meets the objective of creating liquidity in small cap companies for the overall benefit of the investors, issuers and the capital market at large.