

Greetings!!!

Financial market is a market where financial instruments are exchanged or traded and helps in determining the prices of the assets that are traded in and is also called the price discovery process. The Indian Capital Market is significant in terms of its degree of development in volume of trading and the use of technology. Capital markets channelize surplus funds from savers to institutions which then invest them into productive use. It forms a large part of the system that runs an economy.

Scientific reasoning of the movement of capital market mostly depends on different scientific parameters and changed laws and regulations implemented and amended by the regulatory authorities from time to time and as per market demands. Apart from those, other fundamental and technical reasons also influence the Indian capital market, more precisely the Indian stock market.

With globalization of the financial sector, it's time to recast the architecture of the financial market. The liberalized policy being followed by the Government of India and the gradual withdrawal of the procurement and distribution channel necessitated setting in place a market mechanism to perform the economic functions of price discovery and risk management. Hence the concept of derivatives comes into the picture. The emergence of the market for derivative products, most notably forwards, futures and options, can be traced back to the willingness of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices.

The financial instruments in financial strategies are innovating and they are the key players in the Indian capital market. A significant feature of the Indian securities market is the quality of regulation. The market regulator, Securities and Exchange Board of India (SEBI) is an independent and effective regulator. It has put in place sound regulations in respect of intermediaries, trading mechanism, settlement cycles, risk management, derivative trading and takeover of companies. There is a well designed disclosure based regulatory system. Information technology is extensively used in the securities market. The stock exchanges in India have the most advanced and scientific risk management systems. The growing number of market participants, the growth in volume of securities transactions, the reduction in transaction costs, the significant improvements in

efficiency, transparency and safety, and the level of compliance with international standards have earned for the Indian securities market a new respect in the world.

Over the last decade, regulatory reforms in India have focused on promoting shareholder participation in corporate decision-making. Regulation of financial markets may also be needed to protect against "irrational behaviour" by market participants. The expectations of market participants play a crucial role in their demand and supply decisions. Further, regulation is needed to ensure that inequalities of distribution that may be inherent in market outcomes are moderated, and brought in line with society's political preferences. These issues are more urgent in the context of developing countries. Regulation, in order to remain relevant and effective, must also be able to cope up with the fact that technological and business environments can change rapidly. These changes can strain the regulatory capacity of government regulators. Stock Exchanges play a catalytic role in reforming the Indian Securities Market in terms of microstructure, market practices and trading volumes. Historically, exchanges have contributed to promote good corporate governance in their listed companies through listing and disclosure standards and by monitoring compliance. By raising transparency and discouraging irregular practices in the listed companies, exchanges have been able to build up 'reputational capital'.

This issue presents a good number of articles on the cover story theme 'Capital Market & Derivatives' by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.

