COMMUNICATIONS

NATIONAL COLLOQUIUM ON INDIAN FINANCIAL SYSTEM : EMERGING ISSUES AND IMPLICATIONS

A Report

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A National Colloquium on "Indian Financial System : Emerging Issues and Implications" was held on November 15, 1997 in the Annexe E Hall of the Vigyan Bhawan, New Delhi. The Colloquium was organised by the Shri Ram College of Commerce (SRCC), Delhi, and sponsored by the Punjab and Sind Bank, Industrial Development Bank of India and Indian Oil Corporation. The Colloquium was a result of the painstaking efforts of Shri Anil Kumar, the Coordinator of the Colloquium, and other SRCC faculty members.

Prof. J.L.Gupta, Principal, SRCC, welcomed the esteemed guests and delegates. He then threw light on the various activities and achievements of the college since its beginning in 1926, and pointed out that the Colloquium was a landmark event earnestly taken up by the college. He hoped that the deliberations would be of qualitatively high standard and would come up to the expectations of the delegates.

Shri G.L. Bansal, Chairman, Governing Body, SRCC, delivered the welcome address. He appreciated the college faculty for organizing this Colloquium on an important and topical issue, and expressed the hope that the proceedings of the Colloquium would help explain the ups and downs of the stock market and that the experts would discuss the financial turmoil in South East Asian countries and its impact on the Indian financial system.

INAUGURAL SESSION

In his keynote address, Shri G.V. Ramakrishna, Chairman, Disinvestment Commission, emphasized the need to understand the economic turmoil faced by the South East Asian countries. In his opinion, it was the result of indiscipline of the financial system coupled with the existence of capital account convertibility (CAC). The bankers in these countries lent the money raised from abroad to their friends and relatives at soft terms and on most of the occasions without adequate security. As a result, over a period of time the NPAs (Non-Performing Assets) increased in the banks' loan portfolio. The current account deficit also increased over the last few years as exports were not keeping pace with imports.

Realizing the weakness of economic fundamentals, the speculators started short-selling the currency. As a result, the currency depreciated. The central banks of these countries tried their level best to stabilize their respective currencies by selling dollars and by increasing the interest

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rate on both lending and borrowing. But no central bank can keep on doing this for a very long period as even they have limited foreign exchange reserves. The foreign investors started withdrawing their money from the economy. The indigenous investors also pulled out of the stock market to lend at higher rates of interest. This led to stock market crash. Mr. Ramakrishna said that we must learn from the experiences of South East Asian countries and should adopt a cautious approach towards introduction of CAC in India. He wondered whether the preconditions recommended by the Tarapore Committee would be met by the year 2000. He pointed out that the gross fiscal deficit of the central government when added to the gross fiscal deficit of the states and the losses of PSUs, would reflect the true deficit of the economy. In fact, the total fiscal deficit when calculated in this manner would exceed 10.5 per cent which is nowhere near the figure of 4.5 per cent targeted by the Budget of 1996-97. He emphasized that this total deficit should be reduced to 3.5 per cent by the year 2000 for the purpose of introduction of CAC. Further, the NPAs of the banks, which amount to 13.7 per cent presently, should be reduced to 5 per cent by the year 2000. The preconditions for CAC can only be met if there are fundamental changes in the economy and in the way in which the government meets its financial needs.

Mr. Ramakrishna called upon the various industrial associations of India to disseminate information on the agreements signed by the Indian government under the WTO. This is important because various items of exports (sea food, mango, sanitary, etc.) are being affected under the various clauses of these agreements.

He highlighted two major developments in the Indian stock markets in recent years — introduction of Depository System and Revised Carry Forward System. He remarked that the former has brought us one step closer to international capital market standards, and elaborated its benefits and prospects. In his view, till the time derivatives based on the underlying instruments are not introduced in the Indian capital market, the Revised Carry Forward System can provide a good speculation vehicle with strict controls.

Mr. Ramakrishna hoped that during the course of the day the issues raised by him would be considered for discussion by the various speakers and delegates.

Prof. A.M. Khusro, Consulting Editor, *The Financial Express,* and a former member of the Planning Commission, released the July-December 1997 issue of the SRCC's bi-annual research journal, *Business Analyst.*

In his Presidential remarks, Prof. Khusro referred to the inadequacy and incompleteness of the so-called economic reforms in India. According to him, reduction in tax rates, determination of the value of rupee by market forces and industrial delicensing are some of the notable achievements of the liberalization policy. But the effectiveness of even these measures is limited because of absence of matching reforms in the public sector units and the infrastructure sector.

Prof. Khusro expressed his concern over the reduction in real capital expenditure on development by the government. In order to curtail fiscal deficit, he opined that the revenue expenditure should be curtailed by the government, and not the developmental expenditure. The recession which has set in the economy despite low inflation rate and surplus funds with banks for lending is a concern worth exploring. He hoped that the proceedings of the Colloquium in the

technical sessions to follow would come up with some solutions to this grave problem.

At the end of the inaugural function, Shri Anil Kumar, the Colloquium Coordinator, expressed his gratitude to the speakers and delegates for their presence and contribution towards the success of the Colloquium.

TECHNICAL SESSION I : CAPITAL MARKET DIMENSIONS

Introduction

This session was chaired by Shri S.S.Kohli, CMD, Punjab and Sind Bank. By way of opening remarks, he referred to the banking sector reforms over the last six years which include deregulation of interest rates, easing of CRR and SLR segments and introduction of capital adequacy norms for banks. He also pointed out the role of National Security Depository Ltd. in developing the infrastructure for capital markets. He informed the house that the nationalised banks are in the process of devising schemes under which loans against listed securities registered with the Depository would be provided at less margins and lower rate of interest than the loans against the securities in the physical mode.

Depositories

Shri C.B.Bhave, Managing Director, National Securities Depository Ltd., in his presentation, focussed on the way transactions take place in the physical mode at present on the stock exchanges and the manner in which they will be carried out in the depository mode when all the corporates would join it.

According to him, the present settlement procedure of securities does not ensure transfer of good title and good assets. The buyers in the secondary market have to face the risk of bad delivery, and besides this the transfer of securities takes a long time. As a result, all the securities in the economy are written down.

The custodian banks of Foreign Institutional Investors (FIIs) in India insist on Delivery vs. Payment mode of settlement. The brokers — buying as well as selling — who act on their behalf have to bear a cost : for example, if the buying and selling brokers enter into a transaction on behalf of two FIIs with different custodians, the selling broker who is to give delivery of the shares, is asked by the custodian to pay for them and then it lands over the shares to the broker. Thus, the broker has started financing the transaction well before he will be receiving money from the stock market. Similarly, the buying broker will first purchase the securities on the stock exchange paying from his own pocket and then he gives the delivery of securities to the custodian whereby his money is released. Thus, the present settlement procedure imposes a cost on the intermediaries.

Mr. Bhave opined that the absence of brokers who have branches all over the country can be attributed to the lack of uniform laws and controls on all stock exchanges in India. The brokers appoint sub-brokers primarily to avoid the risk associated with the physical delivery of securities. He further observed that if all the settlements are through the depository mode, the intermediaries, whose survival essentially depends upon the retail investors, will not refuse to service them. The depository system will also ensure good asset and good title to the buyers of securities in the secondary market.

Shri Bhave pointed out that the acquisition of technical capability for paperless trading is the foremost requirement for any depository to function. The National Securities Depository Limited which started

its operations in November 1996, has set up a centralized computer system to keep a record of all the securities in the country, and now has the required technical capability.

The next requirement for the success of depository system is its acceptance by the issuers and investors. The participants are the link between the two.

The concept of depository is catching up with the issuers — so far 108 companies or their registrars have set up the necessary infrastructure.

The participants are custodians, stock brokers, banks (domestic and foreign), public financial institutions, clearing houses of stock exchanges and non banking financial services companies. Out of the eligible entities, all the custodians, six banks, 18 broker entities, and almost all the public financial institutions, viz., SHCL, UTI, LIC, and GIC have become participants. All these are rendering services at 108 locations.

The value of securities in the depository mode so far is Rs 10,000 crores, but it is only 2 per cent of the total market capitalization. The investors have, however, started realizing the benefits of the depository system. The Infosys company offers an excellent example where 34 per cent of investors entitled for bonus shares wanted no initial issue of share certificates in the paper form.

Shri Bhave emphasized the need for meticulous and cautious dematerialisation of securities (i.e. conversion of proof of ownership in the form of a paper into an electronic book entry) in order to ensure that nothing fraudulent creeps into the system and the faith of investors in the depository system is not belied. He hoped that the directive of SEBI to the large institutional investors (FIs, FIIs, Banks and Mutual Funds) to compulsorily settle all trading in the dematerialised mode with effect from Jaunuary 15, 1998 would go a long way in popularizing the system.

Mutual Funds

In his presentation, Shri M.M.Kapoor, Executive Director, UTI, threw light on the genesis of mutual funds in India, their vast potential and the current challenges being faced by the mutual fund industry in India.

The Unit Trust of India (UTI), established in 1964, was the first mutual fund in India. With its establishment, Unit Scheme-64 (US-64), an income-oriented scheme, took its birth. The book value of US-64 now is Rs. 18,700 crores and its market value is Rs. 20,000 crores. Mr. Kapoor emphasized the need to know the history of US-64 in order to understand the mutual funds industry in historical perspective.

From 1964 to 1985 the corpus of the scheme was less than Rs 1,000 crores. In 1985 Sec.80M was introduced in the Income Tax Act and that triggered off the growth of US-64 and the subsequent schemes of UTI. Under this Section, individuals and corporates were entitled to 60 per cent tax exemption in income received from the US-64 Scheme. In order to ensure liquidity of this Scheme, the UTI took the strategic decision to increase the percentage of equity in the investment portfolio of the Scheme. At present it stands at 40 per cent. As the secondary market has also developed for the Scheme, the UTI has to do less repurchases.

In 1987 the commercial banks were given permission to sponsor mutual funds. The post-1992 period has witnessed the further opening up of the industry for private mutual fund operators. The industry base has thus widened. But still the UTI itself can be

called the mutual fund industry as it is having more than 80 per cent of the total resources with the mutual fund industry in India. Mr. Kapoor attributed this success to many factors. UTI has honoured its commitment with regard to return on various schemes. It has also catered to the demands of unit holders from time to time. The rights issue and bonus issue to the unit holders of US-64 Scheme in 1992 offers an excellent example. This was on demand of the corporate unit holders who wanted the UTI to share the benefits from the Scheme (NAV of US-64 units rose to Rs. 25 and the selling price was at Rs. 15 at that time) with them. Mr. Kapoor pointed out the peculiarity in the operations of UTI. In bullish markets, the UTI prefers to sell and when the markets are bearish, UTI goes on a buying spree. These purchasing and selling deals, contrary to the market sentiments, have resulted in booking porfits by the UTI most of the time. UTI has framed various schemes which deal with the specific needs of investors. The monthly income scheme of UTI, designed especially for retired people, even today when the capital market is depressed, is able to mop up Rs. 700-800 crores in every tranche.

The real challenge for mutual fund industry, according to Mr. Kapoor, is to attract the investors. The investors, especially of income oriented schemes, expect unexceptionally high returns. They take these schemes to be akin to equity. Therefore, there is need for investor education so that the investors can base their expected return from any scheme on logical estimates. Further, they should know why to invest in equity markets through mutual fund route, and how they can avail themselves of the expertise of the institutions. The mutual funds have diversified investment portfolios for their schemes and offer reasonable return. In this manner, the investor can reduce his risk by being with a mutual fund.

Mr. Kapoor opined that for tapping funds for infrastructure, mutual funds provide the best option to the government; for, they can mop up funds from small as well as institutional investors through various schemes designed by them for this purpose. For this to happen we need an active primary market and a buoyant secondary market. He expressed the hope that the capital market would soon revive because of the measures taken by the SEBI and the government.

Derivatives and Risk Management

In his presentation, Prof. L.C.Gupta, Director, Society for Capital Market Research and an ex-faculty member of SRCC, emphasized the need for risk hedging instruments in India for the development of capital market.

He explained the three types of price risk to which the financial transactions are exposed, viz., exchange rate risk, interest rate risk and equities 'market risk', also called the 'Systemic Risk'. The emergence of (a) currency futures, (b) interest rate futures and (c) equity futures can be understood in the light of the above classification of price risk.

Prof. Gupta argued that the 'badla' system does not provide risk hedging facility or rather provides it in a very limited way in the capital market. He emphasized the need for introduction of equity futures, which will be an efficient and cost-effective instrument for risk hedging. In order to prove his point, he gave a hypothetical example of a scenario where the FIIs, holding portfolio of securities in the capital market, foresee a downward trend in the market in near future. They would unload the portfolio in the cash

market which would result in pressing the prices of securities down. But if we introduce index futures, the FIIs can hedge the risk by selling the index futures and to that extent, there will be no sudden panic in the cash market.

Prof. Gupta highlighted the differences between Forward and Futures contract. Forward contracts are bilateral, non-transferable, non-tradable and have counter party risk. Future contracts, in contrast, are tradable, transferable and have no counter party risk. Due to the absence of currency futures, the people who deal in forward market in India, cover themselves in futures markets abroad. In view of this, he commended the recommendation of the Tarapore Committee to introduce currency futures in India.

Prof. Gupta said that before introduction of any type of financial futures in India, the preconditions required for it should be met. He hoped that the various weaknesses in the cash market recognized by the SEBI's Derivatives Committee (which is being chaired by him) would soon be overcome to pave the way for the introduction of equity futures in India.

Investor Protection

Shri A.R.Ramanathan, Member, Company Law Board, recalled his days as an ex-faculty member of SRCC, and emphasized the need for the teachers of business studies.

During the panel discussion, he threw light on the various provisions in the Companies Act, 1956 and the changes which are being made by the proposed Company Bill, for the purpose of ensuring investor protection. He pointed out that in the proposed Bill, focus is shifting from investor protection to transparency and investor education so that they get necessary information in order to protect their rights themselves. The other important change is the relaxation in the tabs in the existing Company Law which intend to keep management under control. However, the proposed Bill has provided for stiffer penalties for violation of the company laws.

Provisions have been introduced in the Bill for all the three types of investors — depositors, shareholders and debenture holders. The provision for establishment of Investor Education and Protection Fund, according to him, would go a long way to ensure investor protection. All monies lying unclaimed upto a period of seven years would be transferred to this fund. He invited suggestions for changes in the proposed Bill from the house and the press.

Ms. Anita Kapoor, Division Chief, SEBI, threw light on the reforms taken up by the SEBI in the primary and secondary markets. She described investor protection as the touchstone of all the guidelines, rules and regulations of SEBI. She called forth investors' cooperation to make these reforms a success.

Capital Account Convertibility

Dr. Surjeet S. Bhalla, President, Oxus Research and Investment Foundation, asserted that the Indian institutions are well-equipped to go in for capital account convertibility. According to him, the South East Asian economies experienced a deceleration in their growth rates in the last few years mainly due to a fall in the export growth rate, which resulted in higher current account deficits. Moreover, these countries never went in for capital account convertibility in the real sense of the term.

According to him, capital account convertibility is the ability to transfer domestic assets into foreign assets and vice-versa, at an exchange rate which is market

determined. In the South East Asian economies, the exchange rate has been determined by the respective governments and the central banks.

Thus, the South East Asian examples should not act as a deterrent for India to go ahead with capital account convertibility.

TECHNICAL SESSION II : BANKING AND INSTITUTIONAL FINANCE

Changing Roles of DFIs and Banks

The second session was chaired by Shri. K.D.Agarwal, CMD, IFCI. He threw light on the challenges for the Development Financial Institutions (DFIs) and banks in the light of the opening up of the economy. These institutions have been gearing to face these challenges through organizational restructuring, process and business reengineering, induction of new technology and improved HRD policies.

Among the various changes in India since 1992, he highlighted the following : (1) Deregulation of interest rates has thrown up competition for banks and DFIs. Prime Lending Rate (PLR) is being fixed by the banks and DFIs themselves. In the last couple of years, the interest rates have been sliced down by 4 to 5 per cent, resulting in narrowing gap between domestic and international rates; (2) There is a move towards dis-intermediation of credit. Profitable corporates, instead of relying upon the DFIs and banks, can now raise money directly from abroad through CDRs, FCCBs, etc.; (3) There is increased freedom for the banks to lend for projects and for the DFIs to fulfil the working capital needs of the corporates, which has resulted in stiff competition between the banks and DFIs particularly for project financing. According to Mr. Agarwal, there is scope for both DFIs and banks in the area of project financing as we are still short of various infrastructure facilities. A huge amount is required for its development and even when project financing by the DFIs and banks is combined with direct foreign investment in this sector, then also the total requirement is difficult to meet. Project financing for infrastructure sector requires the DFIs to develop more sophisticated appraising techniques; (4) In the efforts towards globalisation, there has been lowering of tariffs, and the threat of imports has resulted in many existing industries becoming vulnerable. They are required to reorient their strategies to become globally competitive. The DFIs and banks have to notice this aspect while appraising the projects; (5) Fund raising pattern for the DFIs has changed. Earlier, the SLR funds were available to them at the rate at which the sovereign paper was issued. But now the DFIs have to raise money at the market determined interest rates. The PLR also keeps on changing because cost of funds keeps varying. Therefore, the DFIs have to increase their efficiency and keep the cost of funds and organizational expenses low in order to offer a better PLR rate; (6) Dismantling of mandatory consortium financing between the DFIs would enable more efficient FIs to do more business; (7) New guidelines have been introduced on provisioning, income recognition and classification of advances. As each institutional bank is now concerned about reducing the percentage of the NPAs in its loan portfolios, there is a higher degree of selectivity of projects by the DFIs and banks; and (8) In order to achieve cost competitiveness and economies of scale at par with global levels, mergers and acquisitions have become the order of the day. All the DFIs and banks are accordingly taking measures to increase their efficiency.

Mr. Agarwal informed the house about the expected increase in the capital adequacy requirement for the DFIs and banks beyond

the present level of 8 per cent of risk weighted assets as the Basle Committee is soon going to come out with the second phase of capital adequacy for market related risks. Therefore, it is very important for the DFIs and banks to develop expertise for project appraisal and take calculated risk in order to increase the credit offtake.

Banking System and NBFCs

Shri Jayant Dang, Managing Director, Escort Finance Company Ltd., dealt with the role played by Non-Bank Finance Companies (NBFCs) in India. According to him, so long as the banks operate in their area of specialization, the NBFCs have a future.

Mr. Dang opined that the attempts of the RBI to (over) regulate the NBFCs in the backdrop of the CRB fiasco, will not yield the desired results; for, the market itself is the biggest regulator. The shake out would benefit the industry.

The Prime Minister, Shri I.K.Gujral has recently suggested depositors' insurance so as to ensure investor protection. Mr. Dang felt that this is not the solution of the problem of lack of confidence of investors (now) in the NBFCs. One should examine to what extent investors want to be protected. The NBFCs should make full disclosures, and if an investor even then also wants to invest in high risk areas, he should be allowed.

Mr. Dang delineated areas in which the NBFCs have operational advantage: automotive business, commercial vehicle segment, small scale segment and housing finance vis-a-vis the private banks, their main competitors in the present scenario.

The Motor Vehicles Act which permits repossession of the assets (sold on hire-purchase basis) in case of non-payment of due installments offers adequate protection to the automotive business of the NBFCs. Some private banks are also coming under this segment. But as these are low value, high volume transactions requiring a lot of manpower, the banks have subcontracted the collection and acquisition. Mr. Dang foresees the smaller NBFCs acting as the collecting and distributing area for these banks. The larger NBFCs have to work towards getting their rating upgraded and extend business to class 'B' cities since it is difficult for private banks to extend their franchise there. The market for automotive business is big enough to offer opportunities to operate for both the NBFCs and private banks.

Secondly, the commercial vehicle segment is wide open for the NBFCs as the banks cannot franchise their business.

The small scale sector faces resource crunch as the SIDBI and SFCs lack an efficient delivery mechanism. The NBFCs can act as the delivery arm for them. In fact, many NBFCs are doing plant and equipment leasing for this sector. But the problem of NPAs has increased during the last few years. Mr. Dang suggested in this connection securitisation of the loan portfolio of NBFCs by the banks, for whom the small scale sector is one of the components of priority segment lending. Thus, the benefits of lower cost of funds can be availed by the NBFCs.

Mr. Dang further suggested securitisation of the loans granted for housing finance, as is the practice in the West. In this way, the NBFCs can have a cheap source of long term funding and enter into this segment as their delivery mechanism is similar to that of the other housing finance companies.

Role of Credit Rating Agencies

Shri P.K.Chaudhary, MD, ICRA Ltd., spoke

about the role of credit rating agencies, particularly in the present context when the confidence of investors in these agencies is abysmally low. He highlighted the role played by rating in pricing of securities. Rating establishes a linkage between risk and return. An investor expects a particular rate of return against a particular risk he takes, and his investment decision is based upon the symmetry between the two.

According to him, rating is based on the debt servicing capability of the borrower and is always on a relative scale. In the event of change in circumstances, the rating is downgraded or upgraded. All the grading should be monitored. As a monitoring agency, a Rating Agency (RA) can change the rating and can publicize it extensively through media. The informed investor can sell off his securities or demand premature repayment. Thus, if RAs monitor the related securities carefully and give correct signal to the investor at opportune time, the confidence of investor can be restored.

The issue of regulations over the Credit Rating Agencies (CRAs) is debatable. The ACC in U.S.A. has remarked that independence of the CRAs is very important because any regulation over services which are based on opinion and perception is uncalled for. Market is the best regulator in these cases. Mr. Chaudhary remarked that there is nothing called correct or incorrect rating. But there exists a difference between fair and unfair rating which should be recognized by the investor.

Corporate Governance

Shri Vipin Malik, a practising Chartered Accountant, and Director, Reserve Bank of India, pointed out the need for code of corporate governance in the present context in order to regain the investors' confidence in the capital market as well as to provide protection to the investors' money.

Mr. Malik observed that the Indian Corporate Board is not in tune with the time. The share holding pattern is very peculiar. The promoters, and FIs are the major shareholders and the minority shareholders have no role to play. He added that corporate governance of the highest level is vested with the Board of Directors. The meetings of the Board are not very frequent and are for 1 to 3 hours duration. Therefore, it is not possible to have indepth deliberations or perception obout the overall business of the company. As a result, in most of the cases the management views in the matter are by and large endorsed by the directors. He highlighted the role of Board members in different countries and made a case for greater disclosure and accountability of the Boards towards their shareholders in India.

According to him, we need a model code of corporate governance which should take the following strands into consideration : (1) There is a need to align the interests of shareholders and professional management more closely; (2) Company performance and potential returns to shareholders can be improved with such genuine relationship; (3) Shareholders should see themselves as owners and not just investors; (4) Non-executive directors have a critical role to play. They need better training and more independence; (5) Proper evaluation procedures should be put in place so that the Board is able to monitor its own effectiveness against agreed objectives; (6) Shareholders should not be involved in the day-to-day running of the company but they must be kept informed so that they can come to a view about the management's performance; and (7) Executive directors need to be well rewarded for their creativity and leadership skills.

Mr. Malik informed the house of the draft code for Indian corporate sector preferred by the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India. He stressed that the FIs and banks which are having a good governance system themselves should make good governance as a precondition for granting loans to the corporates. This would go a long way in the effective implementation of the code of corporate governance.

Shri. A.K.Bhattacharya, Director, Institute of Chartered Accountants of India, also emphasized the need for a good corporate governance and the role of auditors and FIs in ensuring it.

The Board of Directors should be a representative one. There is a need to disseminate information to the investors, and as a result accounting standards become really important. The proposed Companies Bill has given statutory recognition to accounting standards. Mr. Bhattacharya observed that it would go a long way in bringing good corporate governance. He argued that the role which the auditors can play in ensuring good governance is very limited as they have a very narrow perspective and therefore cannot comment upon the future performance of the company under audit. He suggested that if the directors themselves make such statements, it would be another step forward in bringing about good corporate governance.

Mr. Bhattacharya also opined that the role played by the FIs in ensuring good corporate governance is limited. If they have long term investment in a company which is not doing well, they can suggest the company to improve its governance. They may not take upon themselves the responsibility of managing a company as the cost of managing is generally high. Thus, a company not doing well is the right entity for a takeover. In order to avoid takeovers, the companies should win and keep the confidence of shareholders through good corporate governance.

CONCLUDING SESSION

The concluding session was presided by Shri Dalbir Singh, CMD, Oriental Bank of Commerce. The proceedings of this session began with the presentation of the rapporteur-reports. The reports on the Inaugural session, Technical Session I and Technical session II were presented by Dr. P.L. Mehta, Dr. H.L. Bhatia and Shri Ritu Ranjan respectively of the Department of Economics, SRCC.

The valedictory address was delivered by Dr. Shankar Acharya, Chief Economic Advisor to the Government of India. In his presentation he addressed three themes, viz., (1) Reforms in the capital market and banking system and the area of regulation which poses challenge, namely the NBFCs and derivatives; (2) The challenge of domestic competition; and (3) The challenge of international competition.

Dr. Acharya commended the performance of SEBI in setting up initial legislative framework for capital market regulation and its efforts to establish modern market institutions, in particular, the depositories and in-line trading. According to him, the establishment of National Stock Exchange in 1993 marks the watershed in the modernization of capital market. It has imposed competitive pressure on the existing stock exchanges, especially the BSE, DSE and CSE. He also commented on the banking sector reforms (over the last six years) such as deregulation of interest rates, easing of CRR and SLR and introduction of capital adequacy norms for banks.

According to him, the policy makers should frame prudent regulations for the NBFCs so that the investor confidence is restored back in these institutions. The need for introduction of derivatives in the capital markets should also be debated. He asserted that the public sector banks should gear themselves up to face competition from new private banks and foreign banks. The base of mutual fund industry has been widened in the post-1992 era. Therefore, the UTI has to face increased competition from private mutual funds now.

In his view, capital account convertibility as such is desirable. But given the existing domestic financial sector policies, it is a hard decision to make for the economy. Referring to the South East Asian currency crisis, he observed that what has saved our economy from a similar situation is the absence of CAC, low current account deficit (1- 1.5 per cent) and low level of short-term external debt (7 per cent of the total external debt). He recommended a cautious approach to the introduction of CAC.

In his concluding Presidential remarks, Shri Dalbir Singh referred to the reforms in the banking sector and capital markets, and hoped that the government would take steps to implement the remaining recommendations of the Narasimham Committee on the financial sector reforms.

Shri Anil Kumar, the Coordinator, thanked one and all for making this Colloquium a meaningful and useful exercise.