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Research Paper

Evolution of the Capital Market

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ABSTRACT: *In the 21st century, the capital market dominates the financial sector in many countries. However, little regard has been paid to its origin. This paper traces various aspects of the evolution of the capital market for instance; negotiable instruments used by early traders and towns, cities or countries which pioneered the capital market. Further, it portrays the prevailing legal issues in the early times such as lack of regulation and its consequences. Moreover, legislative measures which were takento ensure regulation of the capital markets have also been discussed. In addition to that, the premier securities markets in the modern world have been highlighted. Above all, the author has paid special attention to the evolution of capital markets of India and Kenya.*
KEYWORDS: *capital market, bubble, broker, trader, securities, Van der Beurze, the East India Company*

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I. INTRODUCTION

There are various levels of development of a country. One such level is where, the expenditure is higher than the income. Here little amount of money is saved. Which implies that there exists a vicious cycle of poverty. For instance, as professor Nurkse says that, "the vicious cycle of poverty implies circular constellation of forces to act and react one another in such a way as to keep a poor country in a state of poverty."[1]

Therefore, to develop a country, a policy that stimulates saving of funds amongst citizens is essential. To boost savings citizens are encouraged to deposit their small surplus funds in financial institutions such as banks, co-operative societies, building societies, mutual funds, stockbrokers and pension funds for a specified period of time at fixed rate of interest without any withdrawal. The savings now become investments.

After a period of time, the culture of saving is instilled in the public. The financial institutions stated above will therefore play a vital role in the economic development of the country. Through various incentives they will pool together small, unused, surplus savings from individuals, households and groups scattered throughout a wide geographical area.

Upon gaining access to the surplus unutilised funds, the above institutions transfer funds into deficit units. These institutions therefore act as a link between those that have unused surplus savings with entrepreneurs who are in search of funds to fund their ideas;the lenders and borrowers. As aptly described by Schumpeter- "without the transfer of purchasing power to him, an entrepreneur cannot become the entrepreneur."[2]

Therefore, a capital market in simple terms may be a place, physical or virtual where investors through financial intermediaries lend funds for a fixed long term to borrowers in exchange for financial assets. The maturity period of the financial assets is above a period of one year in addition to interest accruing thereof. The demand for funds mainly comes from the government (national, devolved and local), individuals who seek funds to put into action their entrepreneurial skills, private and public corporations seeking to expand their

[1] *Nurkse on Problems of Capital Formation in Under-developed Countries—A Critique Habibur RahmanThe Punjab University Economist, Vol. 2, No. 4 (FALL 1961), pp. 1-23, Published by: Department of Economics, University of the Punjab*https://www.jstor.org/stable/23006558 *obtained on 20/10/18*

[2] *Schumpeter, J.A., The Theory of Economic Development, Oxford University Press, London, P. 102 obtained 17/10/18*

production. In order to raise long term funds, the borrowers issue shares, long term bonds, debentures and other securities.
The following definitions give us an in-depth analysis of a capital market.
According to the economic times;

"Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions. Capital markets help channel surplus funds from savers to institutions which then invest them into productive use. Generally, this market trades mostly in long-term securities."[3]

"A capital market is a financial market in which long-term debt (over a year) or equity-backed securities are bought and sold"[4]

"A capital market can be either a primary market or a secondary market. In primary market, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local or national) and business enterprises (companies). Governments issue only bonds, whereas companies often issue both equity and bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary market, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises."[5]

It is of paramount importance to note that the capital market is wide and it is either organised or unorganised. The organised capital market has an authority which regulates market players and has a laid down framework that controls the on goings in the capital market. The unorganised capital market consists of traditional lenders especially in rural areas who lend funds for a long term at an agreed interest rate.[6]

In socialist economies like India where the government actively participates in establishing economic development priorities, there exist development banks as part of the capital market. The role of development banks is to act as an avenue to stimulate growth of priority sectors of the economy. For instance, since 1964, the Industrial bank of India(IDBI) provides capital to those enterprises seeking to build industries. The National Bank for Agriculture and Rural Development(NABARD) was established in 1982 with a deliberate aim of developing rural areas and to spur the agricultural sector.[7]

The African Development Bank Group (AfDB) or BanqueAfricaine de Développement (BAD) was established in 1972 with a mandate to spur projects which shall stimulate economic development. It lends funds to governmental institutions for a long term for infrastructural development.[8]

Importance of capital markets

Capital markets hold an important position in economic development of a country. Financial intermediaries play an important role of capital formation by pooling of small savings from widely scattered units into one large sum of funds.[9]

Most importantly, the funds collected are availed to borrowers who need funds to further their enterprise. Therefore, the capital markets are an avenue where funds which had been lying unutilised, are pooled together by financial intermediaries and lent at a specified interest for a long term period above one year to

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[3] *https://economictimes.indiatimes.com/definition/capital-market obtained 17/10/18*

[4] *O'Sullivan, Arthur; Sheffrin, Steven M. (2003). Economics: Principles in Action. Upper Saddle River, NJ: Pearson Prentice Hall. p. 283. ISBN 0-13-063085-3. 18/10/18*

[5] *Privatization and Capital Market Development: Strategies to Promote Economic Growth, Michael McLindon (1996) 18/10/18*

[6] *Capital Markets and NSDL Overviewhttps://nsdl.co.in/downloadables/pdf/capital-markets-and-nsdl-overview.pdf obtained on 18/10/18*

[7] *PDF]Chapter-Ill An Overview of Development Financial Institutions in India shodhganga.inflibnet.ac.in/bitstream/10603/52958/12/11_chapter%203.pdf obtained 25/10/18*

[8] https://www.afdb.org/en/ obtained 25/10/18

[9] *4.1 INTRODUCTION The financial system of a country- Shodhgangashodhganga.inflibnet.ac.in/bitstream/10603/27887/10/10_chapter%204.pdf obtained 25/10/18*

borrowers who intend to use the funds to generate more revenue. In the long run the public is encouraged to save more money and invest through financial intermediaries.[10]

Thus the entrepreneur accesses funds that he seeks in exchange for a financial asset. The investor earns interest on the amount of savings he deposited and financial institutions acting as intermediaries provide a source of employment for citizens skilled in various competencies concerning finance, law, economy and investment. Above all, the capital market stimulates economic growth of a country hence it is the reason why most modern day governments keep a keen eye on the capital markets, monitor reactions to governmental policies, study effects any governmental action would have on the capital markets before its implemented. In conclusion the capital market lies at the heart of economic development of any country and it is prudent for the government to come up with deliberate policies which ensure the establishment of a stable and functioning capital market.

Different types of securities issued or traded in the capital market

1.Share: "A share is an indivisible unit of capital, expressing the ownership relationship between the company and the shareholder. The denominated value of a share is its face value, and the total of the face value of issued shares represent the capital of a company."[11]

"A share in a company is meant not any sum of money but interest measured by sum of money and made up of diverse rights conferred on its holders by the articles of the company which constitute a contract between him and the company." [12]

A share is the interest of a shareholder in the company measured by a sum of money, for the purpose of liability in the first place, and the interest in the second, but also consisting of a series of mutual covenants entered into by all the shareholders inter se accordance with the companies Act [13]

2. Debenture: "A debenture is a type of debt instrument that is not secured by physical assets or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond to secure capital. Like other types of bonds, debentures are documented in an indenture"[14]

3. Bill: ' Document evidencing one party's indebtedness to another, such as an invoice.'[15]

4. Bond: "The bond is a debt security, under which the issuer owes the holders a debt and (depending on the terms of the bond) is obliged to pay them interest (the coupon) or to repay the principal at a later date, termed the maturity date."[16]

5. Futures: "Binding contract made on the trading floor of a futures exchange to buy or sell a commodity, financial instrument, or security, on a stated future date at a specified price. These agreements are standardized in terms of quantity, quality, delivery location, and delivery time for each item, and do not normally result in an actual delivery but are settled (traded out) through counter-contracts. Used in hedging, futures contracts help mitigate the risk of wild price fluctuations. In contrast to an option (right to buy or sell an item that lapses if not exercised) a futures contract is an obligation fulfilled only by the completion of the transaction."[17]

6. Options: "Options are contracts through which a seller gives a buyer the right, but not the obligation, to buy or sell a specified number of shares at a predetermined price within a set time period."[18]

7. Mortgage backed securities: "Mortgage-backed securities are investments that are secured by mortgages. They're a type of asset-backed security. A security is an investment that is traded on a secondary market. It

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[10] *Global Financial Markets & Instruments - Pondicherry University*[*www.pondiuni.edu.in/sites/.../Global-financial-markets%26instrument-260214.pdf*](www.pondiuni.edu.in/sites/.../Global-financial-markets%26instrument-260214.pdf) *obtained on 23/10/18*

[11]*Chapter 22 Company-An Introduction" (PDF). Accountancy. Noida, Uttar Pradesh, India: National Institute of Open Schooling. 2008. p. 242. obtained on 23/10/18*

[12] *CIT v. Standard Vacuum Oil Co. [1996] Comp. LJ 187 (SC). obtained on 23/10/18*

[13]*Borland's Trustee v. Steel Brothers & Co. Ltd. [1901] 1 Ch. 279 at page 288; R.T. Perumal v. John Deavin [1960] 30 Comp.Cas. 340 (Mad.) obtained on 23/10/18*

[14]*https://www.investopedia.com/terms/d/debenture.asp obtained on 23/10/18*

[15]*http://www.businessdictionary.com/definition/bill.htmlobtained on 23/10/18*

[16]*O'Sullivan, Arthur; Sheffrin, Steven M. (2003). Economics: Principles in action. Upper Saddle River, New Jersey 07458: Pearson Prentice Hall. pp. 197, 507. ISBN 0-13-063085-3. obtained on 24/10/18*

[17]*http://www.businessdictionary.com/definition/futures-contract.htmlobtained on 23/10/18*

[18]*https://www.nasdaq.com/investing/options-guide/definition-of-options.aspxobtained on 23/10/18*

allows investors to benefit from the mortgage business without ever having to buy or sell an actual home loan. Typical buyers of these securities include institutional, corporate or individual investors."[19]
8. Mutual funds: "A mutual fund is a professionally-managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities."[20]
9. Equity: "A stock or any other security representing an ownership interest. This may be in a private company, in which case it is a private equity."[21]
Classification of the capital market
The capital market is classified into the following:

Primary capital market

The primary capital market is also known as the new issue market. In simple terms this is where securities are issued for the first time. This market is dominated mainly by a company whether public or private seeking additional funds to kick start a new enterprise or seeking to expand its existing enterprise. To raise such funds, the company issues securities such as shares, bonds, debentures to investors in exchange of their savings. The price of each security is set beforehand.[22]
How are funds raised in the primary market?

(IPO) Initial public offer

The company through an advert, invites investors from the general public. The advert contains the prospectus of the company. The prospectus provides critical information for the prospective investor such as background of the company, the number of shares on sale, the price of each share, the maximum number of shares an individual can buy, where to buy the shares from, the opening date of the initial public offer and the last date of the initial public offer.

After the advert, the general public subscribes to the securities. Thereafter, the securities are allotted to the public. In case the number of subscribers are more than the number of shares, then the shares are allotted through lottery or prorate basis.

The company issuing an initial public offer of shares or any other form of securities in most cases hires stock brokers, merchant banks or underwriters to enable it issue its securities without a glitch within an assigned period of time and according to guidelines set by the regulatory authority of the capital market.[23]

Restricted offer

An Initial Public Offer is an expensive affair. For a successful sale of shares the company needs funds to advertise the initial public offer extensively throughout the country, through television, radio and newspaper. Further a company has to enlist the services of stock brokers, merchant banks, financial experts and lawyers to ensure any issues or complaints are dealt with conclusively.

With this in mind, to some companies, the initial public offer may be an uneconomical and tedious exercise because they may not have the funds to foot the cost of such an expensive exercise or some companies need additional funds quickly.

Therefore, they will contact banks, insurance companies, wealthy individuals and financial institutions. The company will offer them an opportunity to buy the company's security in exchange for funds. In simple terms the company will be offering an opportunity to invest to a restricted number of individuals with an aim of ensuring economy and swiftness.

Rights issue

In most cases, before opening up to the public, companies give a priority to their members. Hence an opportunity is given to their current shareholders to invest further in the company. This is based on the general concept that current investors are likely to further their interest in the company should they be given an

[19] *https://www.thebalance.com/mortgage-backed-securities-types-how-they-work-3305947 obtained on 25/10/18*
[20] *https://economictimes.indiatimes.com/definition/mutual-fundobtained on 25/10/18*
[21] *https://www.investopedia.com/terms/e/equity.asp#ixzz5TWCNCWl9 obtained on 25/10/18*
[22] *Primary Market - How New Securities are Issued to the Public https://corporatefinanceinstitute.com › Resources › Knowledge › Trading & Investing obtained on 23/10/18*
[23] *Chapter 2 Conceptual framework about The IPO & ROI – shodhganga.inflibnet.ac.in/jspui/bitstream/10603/130514/10/10_chapter%202.pdf obtained on 25/10/18*

opportunity to do so. They are given the right to buy new shares of the company but if they forfeit or fail to buy then the public is given an opportunity to buy the new shares in an initial public offer. In conclusion in the case of a rights issue, a company seeking additional funds to commence a new enterprise or seeking to expand its existing enterprise gives priority to its existing shareholders to buy new shares before venturing to the general public in an initial public offer.[24]

Electronic-Initial Public Offer

The capital market in most countries has evolved to keep in tune with the ever-changing times. Moreover, in the digital age where there are technological inventions all over the world, the capital market has made use of such inventions to promote efficiency and to avoid waste of time and resources. Therefore, the electronic initial public offer is an example of modern day advancement in the capital market.With advancement in technology a company intending to give an initial public offer of its securities may do so online. The procedure is laid out by the relevant regulatory authority. At first the company and the relevant stock exchange come to a formal agreement on how the exercise will occur. The company then hires stockbrokers to accept received applications and then it also appoints a registrar to the issue.[25]

Secondary capital market

It is commonly known as the stock market, here the securities of a company are traded. Investors sell the securities they already own to prospective buyers at a price determined by demand and supply forces. If there is more demand than supply for the securities of a certain company, the price of each share of the securities appreciates but if the demand for the securities is lower than the number of securities available for sale then the price of the securities falls. Therefore, the price fluctuates in obedience to the law of demand and supply. The securities traded here are mainly; shares, debentures, bonds, bills, futures, options, mutual funds and mortgage securities.

The securities are traded on the floor of the stock market through stock brokers or the traders themselves. In the modern age, with digital advancement, the stock market has been revolutionised in many ways for instance;

The real time fluctuation of prices of securities is displayed on an electronic board in the stock market.

In addition to that traders no longer need to be at the stock exchange to transact their stocks but can buy or sale in the confines of their houses or offices as long as they are virtually connected to the stock market headquarters through the internet, satellite or any other means.

With the technological advancement in the stock market, one can trade in the stock market from any part of the world as long as he is connected to the internet.

Interestingly though technological advancement has made trading efficient and turned the world to a global village, the stock market is easily vulnerable to any negative effects from any part of the world such as political instability such as coups, civil wars and insurgency, inflation and disasters.

The secondary market plays a critical role in economy because it offers liquidity in the market. Had it not been present the investors would have to wait for many years to cash in their securities. However, the secondary market comes to their aid by providing an avenue for investors to sell the securities they already own to prospective investors in exchange of money. Thus the secondary market plays a critical role of promoting liquidity in an economy. Without it there would be little amount of money in circulation. In the secondary market therefore, securities change hands from the existing investor to the prospective buyer in exchange for money at a price determined by the demand and supply securities of a specific companies. This transaction occurs when the investor is in need of funds or he thinks that the current price of the security is at its peak and it’s time to sell his securities especially in the moment when the demand for securities in the company that he had invested in is so high that it has triggered a drastic increase in the price of the security.

[24] *Right Issue of Shares For Private & Public Unlisted Companies -Companies Act, 2013- Sec-62 https://taxguru.in/company-law/issue-shares-private-public-unlisted-companies-companies-act-2013-sec62.html obtained on 25/10/18*

[25] *ELECTRONIC - INITIAL PUBLIC OFFERING ANDREAL TIME GROSS SETTLEMENT SYSTEM SUBMITTED BY:- CHAITALI BAHRUCHA 30LILY GEDDAM 39SNEHA MANE 40 https://www.scribd.com/document/77205152/Electronic-IPO obtained on 25/10/18*

II. TRACING THE ORIGIN OF THE CAPITAL MARKET IN THE WORLD

The beginning of the activities similar to those of a capital market can be traced to various parts of the world.The global capital market can be traced to several centuries ago. Originally, money lenders mainly filled the gap of banks by lending out money to traders. For instance, in Shakespeare's play; Merchant of Venice, a context depicting a historical setting where money lenders lent money to borrowers.[26]

First brokers in the world

In the earlier times, merchants acted as lenders of money to various businesses. Perhaps it was in the habit of lending that led to a system of trading debts.

Other parts of Europe too had a system in place where debts were traded for instance in France:

"In the 1100s, for example, France had a system where courretiers de change managed agricultural debts throughout the country on behalf of banks. This can be seen as the first major example of brokerage because the men effectively traded debts."[27]

Hence the first brokers in the history of the capital market were the courretiers from France. The trading in debts perhaps initiated thoughts of coming up with negotiable instruments such as debentures.

Trading government securities

As it appears, the absence of proper mechanisms for obtaining debts made banks in the 1300's hesitant while lending. This was the case especially in high risk debts. Banks couldn't lend to high risk debtors. This led to a high demand for capital through loans and therefore the lenders at that time came in to fill the demand gap. They traded with the high risk debtors by lending money to them. The money lenders took a leap of faith and begun trading in government securities. The pioneer of trading government securities were the merchants of Venice whose trading in government securities motivated other players to venture into the government securities market. Banks from nearby cities such as Florence, Genoa, Pisa and Verona followed the footsteps of the lenders and began trading government securities.[28]

"The money lenders of Europe filled important gaps left by the larger banks. Moneylenders traded debts between each other; a lender looking to unload a high-risk, high-interest loan might exchange it for a different loan with another lender. These lenders also bought government debt issues. As the natural evolution of their business continued, the lenders began to sell debt issues to customers; the first individual investors. In the 1300's, the Venetians were the leaders in the field and the first to start trading securities from other governments. They would carry slates with information on the various issues for sale and meet with clients, much like a broker does today."[29]

The world's first stock market

It is believed that the first stock markets begun in Belgium and in the Dutch cities such as Bruges, Flanders, Ghent and Rotterdam.

Van der Beurze was an influential man in 13th century that his house conducted transactions similar to those of a stock market. Despite the fact that the infrastructure and institutions were similar to the modern stock market, there was the absence of trading in shares of companies nor was there listing of companies to the stock market. The markets were mainly concerned with trading in government securities and individual debts.

The Van der Bourse family revolutionised the stock market. They housed the traders and for the first time, trading of debts and other securities came under one roof. Traders exchanging debts and other securities no longer had to move over long distances seeking for other people interested in trading with them. This saved their time and the cost of doing business. Trading under one roof increased interaction amongst traders and the bond between traders increased the confidence and trust amongst themselves. This resulted in an increased confidence amongst traders not only in Van der Beurze's house but in the neighbouring cities. Other merchants from the neighbouring cities didn't want to lose an opportunity in venturing into the security markets.

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[26]Merchant of Venice: A Clash of Feudal, Banking, and Commercial Capitalisms, David M. Boje, Ph.D. Updated December 17, 2000; February 10, 2002; This was a presentation of the 1999 Academy of Management session, "Reclaiming Indigenous Knowledge." https://business.nmsu.edu/~dboje/pages/orderform.html obtained on 28/9/18

[27]https://bebusinessed.com/history/history-of-the-stock-market/obtained on 25/10/18

[28]*The Birth Of Stock Exchanges https://www.investopedia.com/articles/07/stock-exchange-history.asp#ixzz5TXDoGbDp obtained 25/10/18*

[29] *The Birth Of Stock Exchanges https://www.investopedia.com/articles/07/stock-exchange-history.asp#ixzz5TXDoGbDp obtained on 23/10/18*

Perhaps, from the information they heard how trading in securities had flourished under Beurze's house and the huge interest the trade had attracted from other merchants even to the point of motivating them to join the pioneer traders in securities market at van der Beurze's house. The other neighbouring cities borrowed a leaf from Antwerp city. They also began trading in securities because it was a trade worth venturing into. Trading securities under one roof spread from city to city till it reached to the capital city of Netherlands- Amsterdam, region to region till there came a time when trading in securities became prevalent in Europe.

"A common belief is that in late 13th century Bruges commodity traders gathered inside the house of a man called Van der Beurze, and in 1309 they became the "BrugseBeurse", institutionalising what had been, until then, an informal meeting, but actually, the family Van der Beurze had a building in Antwerp where those gatherings occurred. The Van der Beurze had Antwerp, as most of the merchants of that period, as their primary place for trading."[30]

The idea quickly spread around Flanders and neighbouring counties and "Beurzen" soon opened in Ghent and Amsterdam. [31]

Therefore, it is conventionally accepted that in the whole world, it was in the city of Antwerp that the first stock market was formed. The stock market system then gained root and sprouted in the neighbouring cities and other countries. The stock market was a game changer as it encouraged trade under one roof and capital was readily availed through exchange of securities.

In spite of the formation of the stock market, there was a noticeable absence of infrastructure, regulations and institutions as compared to the modern stock market. The organisational structure resembled the modern, the absence of the concept of the company impeded the growth the stock market. The practice of trading in shares of a company had not begun. The security market traders couldn't enjoy the advantages of trading in company shares such as limited liability.

The company

The earliest companies were incorporated in England either through a royal charter or by a special Act of Parliament of the United kingdom in the 17th century.[32]

Acquiring a royal charter or a special Act of Parliament was an expensive and tedious process as members of an association had to go through lengthy processes in order to be given the charter of incorporation. [33]

As a result, the formation of companies became a privilege of the ruling class. For many associations, seeking incorporation was an option way beyond their means. Therefore, royal charters and special Acts of Parliament could only be obtained by huge associations with an enormous financial muscle. The existing associations that weren't able to go through the tedious process of incorporation conducted transactions as if they were already incorporated. Many partnerships came into existence to meet the huge commercial demand.

Separate entity

Membership of each concern became very large. There was an urgent need to put the management of such concerns under a few trustees. As time went by, the concept of separating ownership and management of an entity was considered noble. As a result, various companies embraced the concept and introduced it into their companies. Thereby separating the shareholders and the management. The separation of the management from the ownership gave the management authority to steer the activities of the company without interference from the owners. This led to increased dividends as the companies were now led by managers with knowledge in finance.

The East India Company

The discovery of the Indian subcontinent created a wave of hysteria throughout Europe because India possessed numerous minerals and raw materials for industries. Therefore, most traders embarked on voyages to the Indian subcontinent. However, the journey to and from India was fraught with many obstacles and challenges such as bad weather, piracy among others. Most of the ships would lose their cargo at sea or would not return at all. As a result, ship owners embarked on a formula to mitigate risks by inviting investors to contribute funds to foot the cost of the voyage and in return, they would get dividends upon the safe return of

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[30] *16de eeuwsetraditionelebak- enzandsteenarchitectuur Oude BeursAntwerpen 1 (centrum) / Antwerp foto". Belgiumview.com obtained on 26/9/18*

[31] *pandapedia.com obtained on 23/9/18*

[32] *Origin and Evolution of the Modern Company Law - Legal Service India www.legalserviceindia.com/articles/eocindia.html obtained on 26/9/18*

[33] *Submitted to Waikato University, Student Paper obtained on 03/10/18*

the ship. However, this proved too risky because investors would lose all their investment in case the ship did not return. The ship owners came up with a concept of diversification in which an investor would invest in more than one ship so that if one didn't return safely then he wouldn't have lost all of his fortune.

In 1600s, the British, French and Dutch gave charters to companies in the name East India. As a result, a unique corporation was formed in 1600 called "Governor and Company of Merchants of London trading with the East Indies"[34]This was the famous East India Company and it was the first company to use a limited liability formula.[35]

The above company would issue stocks and the investors would receive dividends on all the proceeds from all the ships of the company upon their return from India. This mitigated the liability of investors.

"The Dutch East India Company (founded in 1602) was the first joint-stock company to get a fixed capital stock and as a result, continuous trade in company stock emerged on the Amsterdam Exchange. Soon thereafter, a lively trade in various derivatives, among which options and repos emerged on the Amsterdam market. Dutch traders also pioneered short selling - a practice which was banned by the Dutch authorities as early as 1610."[36]

The Bubbles Act

Unfortunately, there were no properly laid down laws regulating companies. The absence of a law regulating the conduct of companies became an avenue for fraudsters who posed as promoters calling for public subscription immediately after the formation of a company. The company then would disappear shortly after acquiring capital from the public through allotment of shares. In a stint of time the reputation of promoters was destroyed. The public lost confidence in them. Moreover, the separation of ownership from the management of the companies had made it easier for the members of the public to be duped since they weren't aware of the on goings in the companies. The promoters lured the members of the public to subscribe to such companies relying on the craze and rush that had ensued after the public learnt that the companies were huge profit making ventures. Especially with the fact in mind that such companies were made for the purpose of ship voyages to new 'worlds' recently discovered such as the Indian subcontinent. The public believed that there were vast natural resources in the Indian subcontinent and the subscription to such companies was the best way to get a share of the coveted wealth acquired from natural resources brought back to England through the ship voyages.
With the absence of properly laid down laws to regulate company activities, the fraudulent promoters had a free hand to reign. They looted a huge chunk of money from the members of the public. The end result was a public outcry, enough was enough! As a result, the government came up with measures to curb such theft. The English Parliament empathised with the members of the public who had lost their investments to fraudulent promoters. **In 1720 the Bubbles Act** was passed which prohibited the business of promoting companies[37]

Repealing of the Bubbles Act

Perhaps the mood of the public was so incensed that Parliament didn't consider prohibiting only fraudulent promoters but the entire business of incorporating new companies. This was to the detriment of the increasing trade and commerce which demanded for the formation of more companies to meet the needs of stakeholders. Furthermore, this prohibition lasted for over a century. It was not until 1825 that the Bubbles Act was repealed[38]

Thereafter, the registration and incorporation of large partnerships was made compulsory in 1844.[39] Perhaps this was an awakening to the fact that there was an urgent need to make a law that facilitated the incorporation of companies. The Bubbles Act had negatively impacted trade and commerce in the United Kingdom. [40]Other countries had overtaken England as the pioneer in modern stock market. With this in mind, the English parliament rose to the occasion and enacted the Joint Stock Companies Act of 1844.[41]

[34] History of The Stock Market, https://bebusinessed.com/history/history-of-the-stock-market/ *bebusinessed.com obtained on 05/10/18*

[35]*https://bebusinessed.com/history/history-of-the-stock-market/obtained on 23/9/18*

[36]*LodewijkPetram PhD-thesis http://www.worldsfirststockexchange.com/phd-thesis.html obtained on 25/10/18*

[37] *.{Royal exchange & London Insurance Corporation Act, (6 Geo 1 C 18)} obtained on 22/10/18*

[38]*By The Bubble Companies, etc, Act, (6 Geo 1C 18)) obtained on 23/10/18*

[39] *(Joint stock Companies Act, (6 Geo 4, C 91)). obtained on 23/10/18*

[40]*Student paper Submitted to Christ University obtained on 21/9/18*

[41]*SOME ASPECTS OF JOINT STOCK COMPANIES, 1844–1900, Geoffrey Todd. First published: October 1932 https://doi.org/10.1111/j.1468-0289.1932.tb00840.x obtained on 26/9/18*

The Joint Stock Companies Act of 1844 was the premier law that regulated the incorporation of companies. It was seen as a positive measure towards promoting trade and commerce unlike the Bubbles Act

Principle of limited liability

However, the registered concerns were still known as partnerships and the principle of limited liability wasn't yet embraced. Therefore, despite the fact that the large partnerships had been incorporated the members of such concerns couldn't enjoy the advantages of incorporation because the principle of unlimited liability was still in practice, therefore even after incorporation the private property of members of such concerns was attached or repossessed in order to recover debts or losses owed by such concerns.

To foster the principles characterising a company, the principle of limited liability was granted and put into practice in 1855[42]The various laws relating to companies was consolidated in 1856 into **the Joint Stock companies Act, 1856**[43]

The first Stock exchange

The Bubbles Act prohibited the business of incorporation part of which is the issuance of shares. Therefore, the Bubbles Act banned the very business of issuance of shares. Although the ban limited commerce and trade transactions, the **London Stock Exchange** came into existence in 1801.

Effect of ban on issuing of shares

The ban on issuance of shares didn't do the London stock exchange any good. Had the ban been inexistent or had it been lifted early enough, the London stock exchange could have lived to its full potential. In true sense the ban restrained the London stock exchange from becoming a global financial power. With the London stock exchange shackled by the Bubbles Act other stock exchanges were formed.

The New York Stock Exchange

The New York Stock Exchange(NYSE) was formed in 1817. Its creation was a watershed moment in history. This is mainly because the New York stock exchange began trading since its very first day of inception.[44]Contrary to claims that the New York stock exchange was the first stock exchange, founded in 1790, the Philadelphia stock exchange was the premier stock exchange in the United States of America.[45]

Due to its strategic location at the centre of commerce and trade in the United States in New York, the New York stock exchange grew by bounds. The absence of competition within the United States of America gave NYSE a freehand in stock market trade. Soon, NYSE entrenched its place as the best and most powerful stock exchange in the United States of America this further propagated its status internationally. With the London stock exchange shackled, NYSE cemented its place globally as the biggest stock exchange in the world. The London stock exchange remained a power to reckon in Europe. Regrettably, despite the fact that it was the pioneer stock exchange, it was quickly overtaken in the global sphere due to its limitations and inabilities to fully transact due to restrictions imposed by the Bubbles Act.[46]

Stock markets in the 19th and 20th century

After the London Stock Exchange and New York Stock Exchange had been formed, other countries followed the footsteps of England and of the United states of America by coming up with their own stock exchanges.[47]

In the 21st century, no country can claim to be a major global economic giant without an efficient, modern and swift stock market. In the modern age, the stock exchange of a country is intricately tied to its economy that a

[42] *(By the Limited liability Act of that year, (18 Vict C 133)) obtained on 24/10/18*

[43] *(joint stock companies Act,1856,(19&20 Vict C 47)) obtained on 23/9/18*

[44]*bebusinessed.com Internet Source obtained on 08/10/2019*

[45]*"Annual Dinner of the Board of Brokers of Philadelphia". The New York Times. New York City, United States. June 22, 1857. p. 5. Retrieved March 11, 2019.*

[46]*Bubble Act 1720 (also Royal Exchange and London Assurance Corporation Act 1719)*
An Act for better securing certain Powers and Privileges intended to be granted by His Majesty by Two Charters for Assurance of Ships and Merchandizes at Sea, and for lending Money on Bottomry; and for restraining several extravagant and unwarrantable Practices therein mentioned, 6 Geo I, c. 18 obtained on 27/09/18

[47]*bebusinessed.com obtained on 3/10/18*

slump or a crush of the stock market sends shockwaves across the economy. Generally speaking, the stock market reacts to the prevailing economic conditions of an economy [48]

Therefore, countries endeavour to form regulations and keep a constant keen eye on their stock markets to ensure they are sound and stable because a tiny fluctuation of their indices could lead to unforeseen financial consequences. The governments of the day take precautions especially when formulating policies, they review the effect of such policies on the stock market. Such governments are keen to ensure that their stock markets aren't volatile but stable. This is because stable stock markets attract investors not only locally but also internationally. The tendency of a stock market to attract investors to invest their savings is known as investor confidence.

However, stock markets are fragile. They are vulnerable to various factors such as political instability, fiscal policy changes among others. The table below details major stock markets in the world, their headquarters and their indices.

COUNTRY	STOCK EXCHANGE NAME	HEADQUARTER	INDEX
U.S.A.	New York Stock Exchange (NYSE)	New York	NYSE COMPOSITE (DOW JONES)
U.S.A.	NASDAQ OMX	New York City	NASDAQ
JAPAN	Tokyo Stock Exchange	Tokyo	NIKKEI
U.K.	London Stock Exchange	London	FTSE
CHINA	Shanghai Stock Exchange	Shanghai	SSE
HONG KONG	Hong Kong Stock Exchange	Hong Kong	HANG SENG (HSI)
CANADA	Toronto Stock Exchange	Toronto	S&P/TSX
BRAZIL	BM&F Bovespa	Sao Paulo	IBOV
AUSTRALIA	Australian Securities Exchange	Sydney	ASX
GERMANY	Deutsche Börse	in Frankfurt	DAX
INDIA	Bombay Stock Exchange (BSE)	Mumbai	SENSEX
INDIA	National Stock Exchange of India Ltd. (NSE)	Mumbai	NIFTY[49]

Most devastating stock market crashes globally

A stock market crash is when a stock index drops severely in a day or two of trading[50].The public plays a huge role in the stock market crash for instance as it happened in the 1700s where there was a rush of members of the public to subscribe into companies conducting voyages to the Indian subcontinent. They did so with a high hope to get huge dividends when the ships return from their voyage. This led to a bubble.

In the modern world when shares are traded at a high and unsustainable price, this is considered to be bubble. And in most of the time a high rise in price of shares of a certain commodity to unsustainable rate is followed by a fall ...a tumble. Therefore, a bubble is likely to be followed by tumble.

"An economic bubble, also known as a market bubble or price bubble, occurs when securities are traded at prices considerably higher than their *intrinsic value, followed by a 'burst' or 'crash', when prices tumble. The term is commonly used when talking about the property market (housing bubble)".[51]It is a common trend that stock market crashes are preceded by speculative tendencies of investors stretched beyond the actual value of a stock.

Black Thursday

Perhaps Black Thursday was the most devastating stock market crash in the world that rattled investors and shook them to the core. It was on a terrible Thursday in 1929 when the stock market crashed followed by

[48] *Relationship between stock market and economy , TejvanPettinger December 9, 2018 economics https://www.economicshelp.org/blog/541/economics/relationship-between-stock-market-and-economy/ obtained on 12/9/18*

[49] WORLD'S STOCK EXCHANGES & Its INDICESBy GK Planet Team Wednesday, 7 January 2015 http://www.gkplanet.in/2015/01/world-stock-exchanges-indices.html*obtained on 24/9/18*

[50] Stock Market Crash, Its Causes, Effects, and How to Protect Yourself
What Not to Do in Case of a Crash BY KIMBERLY AMADEOUpdated January 15, 2019 *https://www.thebalance.com/stock-market-crash-examples-cause-impact-3305864obtained on 26/9/18*

[51] Market Business News What Is An Economic Bubble? Definition And Causes *https://marketbusinessnews.com/financial-glossary/economic-bubble/obtained on 12/10/18*

Black Monday and Black Tuesday. It was in this crash that the index of the New York stock exchange (the Dow Jones) industrial average lost 50% of its value.[52]

The stock market crash on Black Thursday, Black Monday and Black Tuesday had far reaching consequences. Most of the global economy was sent into a deep plunge. The ensuing depression wiped out billions of dollars.

The following are stock market crashes that occurred thereafter;

Stock market crash of 1973-74

Black Monday of 1987

Dot com bubble of 2000

Stock market crash of 2008[53]

Notably, none of the above stock market crashes can be compared to the 1929 stock market crash. They are a storm in the cup compared to the Black Thursday crash.

The 1987 stock market crash was the first one in the era of electronic era and to the dismay of many financial analysts, no one foresaw the tumble. It caught everyone by surprise. It commenced in Hong Kong wherein the market tumbled by 45.5% between October 19 and October 31. [54]As the month of October neared its end, stock markets of global economic powers were hit by the shock waves of the tumble of the Hong Kong Stock market. Just as Hong Kong stock market, the global economic powers' stock markets crashed by double digits. The collapse saw the United states of America and Canadian stock markets tumble by approximately 23%. The Australian stock market was hit hardest by the shock waves of the crash; it fell by approximately 42%.

III. EVOLUTION OF CAPITAL MARKET IN INDIA

The formation of East India Company generated a great deal of interest in India. Thus at the end of the 18th century many people were trading in its securities not only in the united kingdom but also in India.[55]

In the 19th century, there was increased focus on India as a result traders flocked in to transact trade. The increased trade led to formation of new enterprises which increased a demand for capital. Therefore, various banks traded their securities for instance Oriental Bank, Commercial Bank, and Chartered Mercantile Bank among others.

The securities of banks other ventures were quoted by the Calcutta newspapers. Only 6 brokers were recognised to transact business between traders and lenders(banks).

The introduction of the principle of limited liability coupled with the enactment of company law Act 1850 was a game changer. It led to a rapid increase of various enterprises. With the boom of trade and construction of roads, railway and telegraph, there was an increased need for capital. This made trading in securities a lucrative business and hence led to an increased number of brokers led by Prem Chand Roy in the 1860's

Impact of American civil war of 1860

Europe relied on the United States of America to supply it with cotton. However, the American civil war made the united states of America inaccessible. There was an urgent need to find an alternative supplier for cotton. India came to Europe's rescue as a result demand for cotton rose rapidly which led to an increase of prices. The unprecedented demand for cotton from India which was paid in Bullion led to increased wealth. This period witnessed increased venture companies in Bombay. The boom led to an increase in share prices of various ventures, excessive speculation and higher premium.

As the American civil war grew to a halt there was a steep decline in price, many ventures were wound up due to bankruptcy. The depression led to the desertion of the trading in securities. The most affected by the sorry state of affairs were the brokers. During the boom, they were greatly revered and respected by their peers as they carried on their trade. However, during depression, everything changed. As the boom declined they became less respected. At the depth of depression, they were loathed, distrusted and considered outcasts in the

[52]*The 1929 Stock Market Crash, Harold Bierman, Jr., Cornell University, http://eh.net/encyclopedia/the-1929-stock-market-crash/ obtained on 03/10/18*

[53]*The 1929 Stock Market Crash, Harold Bierman, Jr., Cornell University, http://eh.net/encyclopedia/the-1929-stock-market-crash/ obtained on 5/10/18*

[54]*bebusinessed.com obtained on 27/9/18*

[55]*The Formation of the East India Company as a Cooperation-Enhancing Institution, Ron Harris, Tel Aviv University - Buchmann Faculty of Law, Date Written: December 2005*

society. As a result, the brokers formed a society in 1887 known as Native shares and stock Brokers Association to protect the character, dignity, status and interest of Indian stock brokers. It is now known as the stock exchange.

Year	registration fee for members in Indian Rupees
1875	1
1877	5
1896	1000
1915	2500
1920	48000

The oldest stock exchange was the Bombay stock exchange. Ahmedabad share and stock Brokers Association which traded units incorporated as joint stock companies and textile mills units was formed in 1894 .[56]

1901-1913

This period saw the emergence local industries. The Swadeshi movement generated a momentum for locals or natives to set up their own industrial ventures. This led to infrastructural development and establishment of industries such as Tata iron and steel company limited in 1907.[57]

This period witnessed a rush in the Jute industry thereby causing increased demand which resulted to the skyrocketing of share prices.

In Bihar, Orissa and Bengal there was a rush for Coal, gold and rice mills. The tea rush and boom in coal shares led to an increased number of people dealing in share trading but with little knowledge on the basics. Therefore, an association was formed by experienced known as the Calcutta stock exchange Association. During this period, business was transacted under a neem tree. The brokers' association rented a floor in 2, New China Bazar street in 1928.The association built a 5 storeyed building in Lyons Range to accommodate the members of the brokers association as they conducted their transactions.

In 1923 Calcutta Stock exchange registered as a limited liability company.

1914-1939- Impact of the first world war

Around 1914, there were 3 organised stock exchanges such as;

Bombay

Ahmedabad

Calcutta

Europe concentrated in production of weaponry i.e. guns, bombs and military vehicles and therefore all energies were fixed on the preparation of war. As a result, the exports from Europe to India drastically declined. The absence of imported commodities led to a high demand for such commodities which resulted to the setting up of various industries, workshops and mills to manufacture the needed commodities. There was an increased interest to manufacture commodities from basic foods to heavy machinery.

The increased demand led to higher prices hence it resulted to a boom in the stock exchanges as a result of increased dividends or profits. The Bombay stock exchange was incorporated in 1917.Gujarat shares and stock exchange in 1920.

The boom of world war 1 led to the broadening of the base of joint stock company, widening public interest in shares and expanding the liquid capital.

The end of world war one ended the stock exchange boom. A depression of the stock market followed. The currency fell. Imports resumed this led to competition against locally produced commodities. Share prices fell. Losses were deeply felt in the stock market.

Business in the Bombay stock exchange ground into a halt despite attempts to restore it in 1922 and 1925.In the long run, it was liquidated and wound up subsequently.

The Madras stock exchange established in 1920 due to the world war one boom. However due to the depression that followed it was knocked out of existence and fizzled out.

Atlay committee

After the depression there was a consensus that the affairs of the Bombay stock exchange needed to be looked into to find a permanent solution on how it could be stabilised to avoid such drastic depression in future.

[56]*The Stock Market in India- An Evolutionary Perspective – Shodhganga, shodhganga.inflibnet.ac.in/jspui/bitstream/10603/156051/9/09_chapter%203.pdf obtained on 27/9/18*

[57]*Corporate history of Tata Steel - TISCO timeline. History of Tata Iron & Steel, https://www.steelonthenet.com/kb/history-tata.html obtained on 5/10/18*

The Bombay stock exchange rejected a proposal by the government of Bombay to form a committee of Appeal (control)involving members of the exchange and outside representatives to supervise its management because it didn't want outside interference. There was a concern that outsiders would take advantage of investors especially during booms thereby plundering their wealth as in previous witnessed during recent stock exchange bubbles. Consequently, the Atlay committee was constituted in 1923 September to look into the causes of depression or the steep decline of the stock market.

The following were the findings of the committee;

–laxity in administration

-rules and regulations in chaotic condition

-neither members nor people knew the rules and regulations

-rules and regulations were not enforced

- no action taken against erring members of the stock exchange

- Vague rules of exchange

The committee suggested the setting up of a controlling authority.

Forming a settled body of rules and regulations in the interest of the investing public.

As a result, Bombay security contract control Act 1925 was enacted to protect the interest of the investing public. The Act empowered the government to grant or withdraw recognition to a stock exchange and the making or amending of rules and regulation by the stock exchange was subject to governmental approval.

In 1927,14th May the Bombay stock exchange was officially recognised followed by the Ahmedabad stock exchange in May 1939.

The Act was replaced by the securities contract act 1956 because it was inefficient in regulation of the transactions of the exchange.

Recovery of Madras stock exchange

Like a phoenix rising from its ashes the Madras stock exchange recovered mainly due to increased public interest in securities and the incorporation of numerous textile milling and plantation companies.

This made investors from other cities such as Bombay and Calcutta to be interested in Madras scripts as a result in 1937, the Madras stock exchange was established. Due to increased activities in the above exchange, there was need to recognise it as a company limited by guarantee therefore in 1937 April 29, the Madras Stock Exchange Limited was formed

Bengal share and stock exchange limited

Due to government control, a number of investors were driven out of bullion, cotton, oil seeds and other forward markets and because of one reason or the other, they couldn't join the existing stock markets. So as to make quick and easy money they established Bengal share and Stock exchange limited in 1937 in Calcutta. A new stock exchange limited by guarantee started in 1936 named Indian stock exchange consisting of well-known businessmen and industrialists whom for some reason were unable to enter the other exchanges but it was not granted recognition by the Bombay government. Lahore stock exchange formed later merged with Punjab stock exchange limited that was incorporated in 1935.

Morrison enquiry committee

Due to failure of the securities control Act 1925 to regulate the stock exchange so as to avoid any further crisis, there was public outcry for the constitution of a committee of enquiry to look into the affairs of the Bombay stock exchange. The Morrison committee constituted in 1936.

It gave the following recommendations;

The government needed to form laws which;

a) Introduce compulsory system of margins

b) Abolish blank transfers

c) Give government power to impose rules on the exchange

d)Extend control over ready delivery contracts and the amendment in the definition of ready delivery contract

Second World War boom

At the dawn of the second world war, there were only 8 functioning stock exchanges;

2 in Bombay

2 in Ahmedabad

2 in Calcutta

1 in Madras

1in Lahore

There was an increase in share prices till the time when France fell in the war. The government reacted by fixing minimum prices of government securities and issuing an order under the defence of India rules prohibiting Bald

business in order to curb specific tendencies. In 1943 the stock market stabilised mainly because allies were doing well at war. This period witnessed increased production i.e. mills, factory workshop. India supplied various commodities to the allies. As a result of the war there was a boom in the stock market.
Consequently, four new stock exchanges were set up in Ahmedabad but two of them didn't last for long.
In **Lahore** for new more exchanges were set up namely;
1.The Punjab Share and Stock Brokers Association Limited
2.The Lahore Central Exchange Limited
3.The Lahore Stock Exchange Limited [58]
4.All Indian Stock Exchange Limited
In **Calcutta** a 3rd exchange was established;
Stock Exchange Association of Bengal Limited
In **Delhi** two new stock exchanges were formed
1.The Delhi Stock Exchange and Share Brokers Association.
2. The Delhi Stocks and Shares Exchange Limited.[59]
In 1943 25th June the two stock exchanges were amalgamated into Delhi Stock Exchange Association Limited.
New stock exchanges were established in Kanpur, Nagpur, Hyderabad and Bangalore.
Thereafter a sharp decline in stock exchanges was witnessed due to;
1)Communal riots during partition leading to the closure of Lahore stocks and merging of one stock exchange with Delhi Stock Exchange.
2)RBI directives to scheduled banks to suspend the extension of credit against stocks and shares
3)The threat of nationalisation
4) Low Investor confidence in futures
5)Political instability during partition

Departmental committee 1948

A draft bill based on the recommendations of Morrison committee report wasn't passed because of the second world war and objections against it by the Bombay exchange.
Dr. P J Thomas, the economic advisor to the ministry[60]
of finance was appointed by the government in May 1948 to give a report on suitable legislation for regulation of stock exchanges in India.
It submitted a report in 1948 called for a meeting of all stakeholders of the stock market i.e. central government, state government, Reserve Bank of India and presidents, elected officials or representatives of the leading stock exchanges in India.

Gorwala Committee

Upon the enactment of the new constitution 'the stock exchange and future markets' were put under item 48 of the union list. Forward contracts (Reg) Bill 1950 was prepared based on the recommendations of the departmental committee to regulate the stock market.

The draft bill was put before the expert committee comprising of presidents of Bombay, Calcutta and Madras stock exchange. The chairman of the committee was Mr. A D Gorwala.

The government prepared the security control (Reg) Bill 1954 and enacted it in 1956 based on the recommendations of the submitted report of the above committee in 1951.

It granted the government powers to control, regulate and supervise the exchanges. Only those stock exchanges granted recognition by the central government could function. Only established stock exchanges of Bombay, Calcutta, Delhi, Ahmedabad, Madras, Hyderabad and Indore were recognised under the securities Contract Act.

The Bangalore stock exchange was registered in 1957 and its recognition in 1963.The Cochin stock exchange limited in 1979 was registered. The Uttar Pradesh stock exchange limited (Kanpur) and the Pune stock exchange limited were registered in 1982. The Ludhiana stock exchange limited was registered in 1983.The Guwahati stock exchange limited in 1984 and the Kanara stock exchange limited (Mangalore) was registered in 1985.[61]
By 1985 a total of 14 stock exchanges had been registered.

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[58] *Submitted to Dublin City University, Student Paper obtained on 8/10/19*

[59] *Submitted to University of Northampton Student Paper obtained on 28/9/19*

[60] *Chikayoshi Nomura. "The House of Tata Meets, the Second Industrial Revolution", Springer Nature, 2018 Publication obtained on 6/10/18*

[61] *Submitted to University of Lancaster, Student Paper obtained on 27/9/19*

Their rules, bye laws and regulations were subject to governmental approval.

Patel committee

The capital market grew by bounds. However, it was uneven and unbalanced. The spread of investment consciousness was insufficiently distributed throughout the country. The rural and semi urban dwellers were not mobilised to save due to lack of information and inefficient communication. Vices such as insider trading and other ill speculative tendencies were observed. In addition to that manipulation and large scale rigging was common.

Hence the Patel Committee was charged with the function of coming up with ways of instilling, discipline, ethics and professionalism in the capital market. The government accepted and implemented most of the recommendations of the committee.

Dave committee report

The committee was appointed in September 23, 1987 to look into regulations on trading in stock exchanges. Its primary objective being to revive the stock market.
The committee recommended that the government should loosen restrictions on the stock exchanges.

Abid Hussain's committee

Headed by a member of the planning commission, the committee was constituted to come up with measures to motivate growth of the capital market.
Its recommendations were accepted and implemented by the government such as;
the increase of the ceiling on Non Resident Indian investment in equity capital of Indian companies.
The sale of a maximum of 25% of profit making public service undertakings' equity to employees and the public
Promotion of the interest of the investing public by raising the standard of disclosure.
Companies making offers of capital issues must go through merchant banks registered with SEBI.

Phewani committee Report of 1991

It was to review and revise existing guidelines regarding issue of new shares and debentures of companies, cost of public issue of securities among others. It recommended that a central depository trust be established.

In 1992 November 27, the National stock exchange was established and granted recognition under section 3 of the securities contract act 1956.So as to ensure transparency and adherence of the Indian capital market to international standards.
References[62]

IV. EVOLUTION OF THE STOCK MARKET IN KENYA

1920-1953-International recognition of the Nairobi stock exchange

Trading in shares took place in the beginning of the 20th century. It was not sophisticated as it is today. Moreover, the Nairobi stock exchange had not been recognised internationally. Most of the trading in shares took place on a gentleman's agreement and in addition to that there was no specific building in which all traders could trade. The year 1953 was a game changer, the Nairobi stock exchange received its first international recognition.
The London stock exchange agreed to recognise the Nairobi stock exchange as its overseas subsidiary.

1954-1962-Registration of the Nairobi stock exchange

There was a need to regulate the stock market trade to avoid the chaos and anarchy that could ensue in an unregulated stock market. In light of the above, the Nairobi stock exchange was registered under the Societies Act (1954) as a voluntary association of stock brokers.[63]

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[62]*1. Security Markets in India , Bal Krishnan and S.S Narta*

2. Bombay Stock exchange official Directory, Bombay Stock Exchange, Bombay, 1985. obtained on 25/9/18

3.Garg ,K.L., Stock Exchanges in India, H.P. Aggarwal & Co., Agra, 1964. obtained on 26/9/18

4. Gupta, U.L., Working of Stock Exchanges in India, Thomson Press, New Delhi, 1972. obtained on 25/9/18

5. History and present position of the stock Market in India, Bombay Stock exchange, 1962. obtained on5/10/18

[63]*Submitted to University of Central England in, Birmingham, Student Paper obtained on 5/10/18*

The registration of the Nairobi stock exchange was a deliberate move of empowering it to take up the role of nurturing the securities market and in addition to that, it was charged with a role of keeping a keen eye on and most importantly regulating the trading activities in the stock market. Transactions were telephonic and prices were arrived at through negotiation

1963-1970-privatisation and delisting of Tanzanian and Ugandan companies

After the independence of Kenya in 1963 there was an urgent need to readjust the economy in order to trickle down the fruits of independence to the common citizens. One way of doing that was to transfer the economic and social control to citizens. Therefore, the government formulated policies to ensure this.

During this while the Nairobi stock exchange existed as a regional market in East Africa in which some industrial shares and public sector securities included issues by the Ugandan and Tanzanian governments.[64]

At 1968 the public sector securities listed were 66 in number part of which 45% was owned by the government of Kenya, 23% the government of Tanzania and 11 % the government of Uganda.[65]

The East African region had forged an economic foundation a unit through the Nairobi stock exchange but it didn't last long as the political instability in Uganda due to the coup de tats and changing political views in Tanzania which affected the unity of the East Africa community. As a result, free movement of capital from Uganda and Tanzania to the Nairobi stock exchange was hindered. Regrettably, the companies domiciled in Uganda and Tanzania were delisted from the Nairobi stock exchange.[66]

1975-collapse of EAC

In 1975, the discord amongst the 3 countries – Kenya, Uganda and Tanzania reached a point of no return and as a result the East African community collapsed. Thereafter all the Ugandan companies or their subsidiaries quoted or listed in the Nairobi stock exchange were nationalised under compulsion by the Ugandan government.

1988-1st privatisation

In 1988, the government of Kenya sold 20% of its stake in Kenya commercial Bank. This was the first time in the history of Nairobi stock exchange that a stake of the government in a company was sold to the private sector. Now the government of Kenya remained with 80% ownership of the bank.[67]

1990-The Capital Market Authority

There was an urgent need to set up a body specifically charged with the responsibility of promoting and facilitating the development of a robust and an efficient capital market in Kenya. In view of the aforesaid a body known as the Capital Market Authority was formed in 1990, January under the Capital Markets Authority Act (cap 495 A) [68]

1991-NSE registered

In 1991, Nairobi stock exchange was registered as a private company limited by shares. Unlike the previous times when trading of shares was conducted over a cup of tea, trading was shifted to the floor based outcry system located at IPS building , Kimathi street , Nairobi.[69]

1993-Increased paid up capital

The body charged with regulating the stock market, the Capital Markets Authority raised the initial paid up capital for investment advisers to 1 million Kenyan shillings, in addition to that the initial paid up capital for brokers of the stock market was raised to 5 million Kenyan shillings from 100,000 Kenyan shillings.

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[64] www.nse.co.ke , *Internet Source obtained on 4/10/18*

[65] *Submitted to University of Mauritius Student Paper obtained on 5/10/18*

[66] www.nse.co.ke , *Internet Source obtained on 1/10/18*

[67] https://www.nse.co.ke/nse/history-of-nse.html, *History of NSE obtained on 4/10/18*

[68] *An Act of Parliament to establish a Capital Markets Authority for the purpose of promoting, regulating and facilitating the development of an orderly, fair and efficient capital market in Kenya and for connected purposes* http://www.kenyalaw.org/lex/actview.xql?actid=CAP.%20485A *obtained on 3/10/18*

[69] https://www.nse.co.ke/nse/history-of-nse.html, *History of NSE obtained on 23/9/18*

1994-CMA amendments Act

The Capital Markets Authority Act was amended. Amongst the new provisions included in the Act,[70] was mandatory provision on all securities exchanges approved by the capital markets authority.[71]

Under the provision these securities exchanges were to be companies limited by guarantee. In this period many people were motivated by the proper organisation of the stock market and as a result they joined as brokers this led to a rise in number of brokers. On 18th 1994 February, the 20 share index of Nairobi Stock exchange reached a peak of 5,030 points. In the very same year, Nairobi Stock exchange was ranked as the best performing market in the world.179% in dollar terms was the return.[72]

In the year 1994 the month of July due to increased number of participants, there was a need to find more spacious room to facilitate trading. Therefore, the Nairobi stock exchange moved to the Nation centre. A computerised delivery and settlement system replaced the previous system.

1995- Establishment of the investor compensation fund

The investor compensation fund was established to compensate investors for financial losses that arise from breach of contract by licensed brokers who do not meet their obligations.[73]

1996-model success story in the divestiture of state owned enterprises

The government of Kenya divested its stake in Kenya airways from 74% to 26%.[74]

This was done through a privatisation drive in which more than 110,000 people became shareholders. The team which oversaw the privatisation was recognised as a model in divesting of state-owned enterprises and was awarded the bank award for excellency 1996

1997- formation of association of Kenya stock brokers

The association of Kenya stock brokers was established with the purpose of educating members through initiatives such as offering of examinable course. In addition to that it was established to promote good ethics amongst stakeholders in the stock market. The Capital markets Authority and the Nairobi Stock Exchange considered it prudent to form the above association as it would profit its members.

1998-Disclosure guidelines

The Capital Markets Authority came up with guidelines to ensure transparency. Listed companies were required to meet the new set standards for disclosure especially during initial public offers and other related obligations.

1999- Audit committees, depository cooperation and the East African treaty

This was a busy year in the capital market. As the year began, the Capital Markets Authority provided for the establishment of audit committees to enhance and enable best corporate governance practices.

In March of 1999, through Cap 486 of the companies Act, the Central Depository and settlement Corporation Limited was established. In November of the same year there was a ray of hope for the establishment of a regional stock market when Kenya, Tanzania, Uganda, Rwanda and Burundi signed the East African community treaty in Arusha.

2001- Division of the Nairobi stock exchange market and convention of East African Capital market committee

The above market was divided into fixed income securities (FISMS), alternative market segment (AIMS) and main investment market segment (MIMS).

In the same year the first meeting of the new Capital markets Development committee occurred organised by the East African community secretariat in Dares salaam Tanzania.[75]

2003-Operationalisation of the Central Depositories Act 2000

The above Act came into being in June 2003

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[70] *www.kenyalawresourcecenter.org obtained on 3/10/18*

[71] *www.kenyalaw.org obtained on 5/10/18*

[72] *Submitted to University of Central England in Birmingham Student Paper obtained on 23/9/18*

[73] *www.nse.co.ke Internet Source obtained on 23/09/18*

[74] *www.nse.co.ke Internet Source obtained on 5/10/18*

[75] www.nse.co.ke Internet Source obtained on 25/9/18

2004-Formation of East Africa Securities Exchange, automation and the central depository system

The Nairobi securities exchange, the Uganda securities exchange and the Dar es Salaam stock exchange formed the East Africa Securities Exchange Association after signing a memorandum of understanding amongst themselves.[76]

Moreover, the depository system was centralised in the same year and trading of shares in the capital market was automated.

2006- NSE LIVE TRADING

The Nairobi Stock Exchange began live trading on its automated trading system which was capable of trading immobilised corporate bonds and treasury bonds.[77]

2007-Wide Area Network

The Nairobi Stock Exchange established its own wide area network platform (WAN).stakeholders such as brokers, bankers and others no longer required to be physically present on the trading floor as they would be able to trade through terminals in their offices linked to the trading engine of Nairobi stock exchange.[78]

2008- NSE share index

The Nairobi stock exchange introduced its share index known as Nairobi stock exchange All Share Index (NASI) in order to give the investors with a comprehensive measure of its performance. In the same year it introduced the 1st edition of the Nairobi stock exchange Stuart youth investment challenge in order to publicise and motivate the youth to invest in NSE. In addition to that trading hours were increased from 9 am to 3 pm.

The Initial public offer of Safaricom was a game changer, it increased the number of shares listed on the bourse to 55 billion shares from a previous 15 billion shares.

2009-automated trading in government bonds and establishment of complaint handling unit

The Nairobi stock exchange established a unit to handle complaints so that the investors and the general public would receive fast, prompt and appropriate feedback.

In the same year, for the first time, government bonds were traded through an automated trading system.

2011- NSE changes its name

The Nairobi stock exchange limited changed its name to the Nairobi securities exchange limited this was with a view to evolve into a full service securities exchange engaging in trading, clearing and settlement of equities , debts, derivatives and other associated instruments.[79]

In the same year the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 indices were launched by the NSE and FTSE international.[80]

2012-NSE becomes a member of FISD

The NSE became a member of the Financial Information Service Division(FISD) and information Industry Association (SIIA).[81]

roximately 42%.

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[78]www.nse.co.ke Internet Source obtained on 6/10/18

[79] Submitted to University of Lancaster Student Paper obtained on 25/9/18

[80] Submitted to University of Mauritius Student Paper obtained on 5/10/18

[81]*history of Nairobi securities exchange-https://www.nse.co.ke/nse/history-of-nse.html obtained on 12/9/18*