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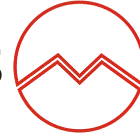

# STUDY ON QUALITATIVE DEVELOPMENTS IN THE CAPITAL MARKET

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***Abstract:*** A growing stream of research in accounting and finance tests the extent to which the tone of financial disclosure narrative affects security prices, over and above the disclosed financial performance. These studies measure tone by counting the relative frequency of positive versus negative words in a given disclosure (e.g., earnings press releases). Critical to the analysis is the list of words deemed to be positive or negative. Most studies use general wordlists (GI or Diction) rather than wordlists that are specific to the domain of financial disclosure. General wordlists likely omit words that would be considered positive or negative in the context of financial disclosure and include words that would not. Application of general wordlists to financial disclosure also gives rise to problems with polysemy. For example, the word 'division' is considered a negative word in the GI wordlist, but that word is commonly used in financial disclosure to describe a segment of a company and is thus neither negative nor positive in a domain-specific context. In this study, we compare the predictive validity of these commonly-used wordlists to a wordlist developed specifically for the context of financial disclosure. Using a sample of over 15,000 earnings press releases, we find that the context-specific wordlist developed by Henry (2006, 2008) is more powerful than the general wordlists used in past research. Our findings suggest that capital markets researchers will benefit by using the domain-specific wordlist in the context of financial disclosure. These results will help to establish a firm foundation for research on qualitative information in financial disclosure.
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**Introduction:**

In a typical developed country there is a multitude of financial services enabling people to make payments; borrow at reasonable interest rates; save for retirement; and limit economic risks through insurance. These services are provided by various institutions acting in a complex network of regulations and relationships that together make up the financial system. From a macroeconomic perspective, this system allows efficiency through decreased transaction costs, allocation of resources to productive use in enterprises and infrastructure, and the pooling of risks. (Obstfeld, 2004) In developing countries, however, the situation is often quite different. The financial system is less developed and financial services are less widely available or of much poorer quality. An entrepreneur wanting to grow his business may not be able to raise capital; a worker may not be able to earn interest on her pensions savings; investors have disincentives to invest capital due to high transaction costs or high risks – perhaps the only reliable investment available is gold or foreign currencies because of high inflation and fluctuant exchange rates. Such an economic environment has negative consequences for the individual, but also for the country as a whole. Today many see the improvement of the financial system in developing countries as one way to support economic development. Organisations such as the World Bank, EBRD or the Swedish International Development Cooperation Agency (Sida) participate in projects to build financial institutions, improve regulation and in other ways strengthen the financial infrastructure in developing countries. For example, "…building the climate for investment, jobs and sustainable growth, so that economies will grow, and by investing in and empowering poor people to participate in development" is the formulated strategy of the World Bank (World Bank, 2006).

In case to increase efficiency of market, showing more transiency, just to prevent biased dealings practices and to match the market of India with international standards regulate this capital market was introduced. Allocation of resources by a central authorityamong different competing entities was discontinued. Screen based trading was introduced to overcome the geographical barriers. Physical security certificates

was disappeared .The time of one week was given for the settlement period.
The detailed discussion of reforms mentioned above follows:

**SEBI Act, 1992**

In order to integrate regulation of the securities market Enactment of SEBI Act was the first attempt .Under this act full dominance and power was given to SEBI as well as authorized control for various provisions under the Companies Act and the SCRA. SEBI is also going to administered The Depositories Act, 1996

**DIP Guidelines**

In the revoke of liberalization process in May 1992 Capital Issues (Control) Act, 1947 was passed. Earlier government was controlling issue of capital, pricing of the issues, fixing of premium and rates of interest on debentures which was ceased and market was allowed to allocate resources to competing users. SEBI issued Disclosure and Investor Protection (DIP) Guidelines in the interest of investors.

**Screen Based Trading**

In India for immediate matching or recording of Trades the information technology were not used for trading on stock exchange in India .This process of trading was time consuming and inefficient .This was a big challenge for stock exchange on the volume of the trading and on its efficiency. In order to enhance efficiency and transiency a nationwide online fully automated screen based trading system (SBTS) was introduced by the NSE. In this processor members were given the access to punch quantities of securities and prices at which they like to transact and as soon as it finds a matching sale or buys order from counter party the transactions are executed. This system helped in saving of time, cost and occurrence of errors. It also increased the information efficiency of markets .It has made the market transparent by facilitate market contributor to watchthe picture of market or real time basis.
Now a day's electronic order matching helping in trading. Just to provide thetrading platform to settle the broker's issues technology was going to be used. NST has also provided the facility to investors through PCs in their residence.

**Trading Cycle**

The trades at the end of trading cycles were clubbed together and balanced was settled by payment of cash and delivery of securities. The trading cycle was having the time period of 14 days for specified securities to 30 days for other and settlement were taking place another fortnight. The trading cycle was reduced in order to large open positions over a period of time to a week .Now every exchange was going to follow a uniform weekly trading cycle. Major 400 securities trading cycle has been reduced to one day only

**Derivatives Trading**

In 1995 SCRA was amended to help market participants in managing risks through hedging, Speculations and arbitrage. Further amendments was made in SCRA in 1999 to include derivatives in the definition of securities so that trading of securitiescould apply to trading in derivatives also .Earlier there was ban on forward trading which was withdrawn. Derivative trading was taking off on two exchanges in June 2000. Now the market was offering index futures, index options and stock options and would soon after stock future.

**Depositories Act**

Settlement risk was raised on Indian stock exchanges due to settlement system. Physical movement of paper was the only way of trade settlement. In order to settlement the trade the practice of delivery of shares by the seller and payment by the purchaser were taking place. According to companies Act, the process of transfer should be completed within two months periods time but this process was taking much longer time than the stipulate time. This was adding in to costs and more delay in settlement and again makingInvestors grievances redressed time consuming. Depositories Act 1996 was implemented just to facilitate investors free transferability of securities with speed, accuracy and security .It helped in free transfer of securities of Public limited companies which were subject to certain conditions. According to 1996 Act, there was no such requirement of moving of securitiesfrom person to person rather transfer of ownership of securities was done electronically by book entry. Now instant electronic transfers of securities was possible with the help of NSDL and CDSL two depositories. It was made compulsory for all new IPOS to e compulsory traded in dematerialized from just to present physical certificates .Physical form or dematerialized

Form were options of either subscribing to securities

**Investor Protection**

SEBI was established to protect the interest of investors .Specific matter isdisclosed by SEBI and for protection of investors in respect of issues the standard of disclosure is required. Investor's grievance cells for redressed of investors grievance is set up by DEA, DCA, SEBI and exchange .Investors Protection funds are maintained by exchanges to take care of investor's claims. Investor education and protection funds has been set up by DCA for the promotion of investors awareness .Various education and awareness programs are going to be organized.

**Globalization**

Presently Indian securities market had a great integration with the all countries of the world. Permission was given to Indian companies to raise resources from abroad .The facility of issue of ADRs, GDRs and foreign currency convertible bonds were given investors for this purpose Now Indian companies were permitted to list their securities in foreign stock exchange by sponsoring ADR/GDR issues .NRI and OCBS can now do invest in Indian companies .Full capital account convertibility was now being enjoyed byFII and even now they have got the permission to invest in all types of securities including government securities. Stock exchange of India have got the permission to build up their trading terminals in all over the world .Now through the internet the trading platform of Indian exchange is accessed from anywhere in the world.

**Capital market evolution**

This thesis focuses on countries in early stages of financial system development. The development process can look very different in different countries, but there are some common characteristics of how financial systems develop over time that can be distinguished. First, financial system development usually means greater diversity of the financial services available for individuals and organisations. The basic functions such as payment system, capital allocation and insurance become more readily available as financial system development progresses. From the capital user's point of view the capital market development lifecycle can be characterised by the sources of capital available. The first capital used to start a business is often personal, or possibly a micro credit when such is available – hence there is no need to use the capital market. Later, a successful entrepreneur may use bank loans to expand his business. But at some stage of business development it may be more favourable for the capital user to turn to the capital market in order to grow the business. In comparison to bank loans, the capital market could provide capital at lower cost (through bond issues) or in larger volume (through share issues) than would be possible with bank credit alone.

This can be seen as a big step, especially if ownership rights and company control are a worry to the entrepreneur. It requires familiarity with the capital market, and a bond issue can be a natural first step to test using the capital market before spreading ownership through a share issue. As financial literacy develops, investors' interest for alternative investment opportunities increases. With increased awareness of risks and yields, the demand for more advanced investment products (e.g. shares and derivatives) can increase. A lifecycle for the exchange institution can also be detected, though it is by no means a law-bound development. In early stages of development of the capital market the exchange is usually not a profit making entity – simply because there are small revenues from trading, listing or membership fees. In some developed economies the capital markets developed slowly and naturally. In England for example, different forms of government bonds were traded in natural meeting places, such as coffeehouses, for more than a century before the business was organised into the member-owned Stock Exchange in 1801 (The Economist, 2005). Countries wishing to speed this process up have created similar institutions 'from above', with government funds or foreign aid (such as the USAid project that assisted the formation of the member-owned, non-profit Georgian Stock Exchange in 1999 (GSE, 2005). In more developed markets there is a trend towards for-profit exchanges – companies that compete for listings and trading revenues. The descendant of the London exchange of 1801 – the London Stock Exchange – is one example of such a company, which has listed its shares on its own market. At this stage of development the exchange is

no longer in need of subsidies but is rather a sought-after source of profit (over the past few years the LSE has been courted by several exchanges and other companies, wanting to buy the very profitable enterprise).

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