Preface

The Idea of editing a book on financial market regulatory structure and issues to the harmonization of financial structure in SAARC region germinated during my Doctoral studies on structured finance. After reading various authors I found lot of interesting resources and though of consolidating a piece of document which will serve as a study of discipline called ‘South Asian financial market’. Today we are proud to offer to the research community an authentic piece of collected data on south Asian financial market, which will serve as a reference book for practitioners as well as students.

Financial Markets are the places of measuring development in modern era. The stabilized market of any country show the stability for the government, and prosperity of the people. There are different forms of the markets which is operating in the various countries. The major tasks of the market is enabling the trading of the primary or secondary securities. South Asian region is comprising of countries Sri Lanka, Bangladesh, Afghanistan, Nepal, Bhutan, India, Pakistan and Maldives. This Book have covered different countries of South Asia with different values, market standards and different investors with special reference to major countries having diverse issues in financial structure. But one thing is very clear that the south Asian countries are having diversified markets. The presence of different types of the investors make it imperative to study the markets very closely. Without the complete study of the markets it is impossible to advice the investment at all. These markets are being operated with several generations from now. Every time with the change in the polity and demography the trend in the investment changes. To meet out these challenges the changes in the markets is required. Sometime the positive and some time the negative incidents promote the changes in the structure of the markets in various countries. For an example the scandals in the Indian markets have promoted the coming up of the new Companies Act and SEBI as modulator of the Indian markets. Likewise presence of Islamic investors have promoted to various other institutes in different countries.

Several generations of financial market reforms in South Asia have resulted in extended prudential regulations, an improved soundness of financial systems, in particular the banking system, and in an increased diversification of risks. Policy makers, central bankers and supervisory authorities have made endeavours both to stabilize South Asian financial systems and to enable their economies to return to a sustainable growth path key issues in the South Asian financial market such as the national and global financial architecture including rules, infrastructure, and governance.

This book through its various chapters has deliberated that South Asia has witnessed the most diverse markets, as well as the biggest among the whole world. The Indian security market is the one of the most bulky market of the globe and it require hefty regulators like the SEBI and RBI. Similar on the lines there are definite markets in countries like Sri Lanka and Afghanistan. But all of them are facing some
issues pertaining to the investment. The present work is just the summary of the different works, efforts which are going around the different countries to address the issues related to investment.

The present book is having different chapters which are discussing the market structure in different South Asian countries. It cover the matters related to the market structure, regulators, challenges and remedies that are offered at various level. The chapters are covering almost every financial market that is found in the south Asian countries. The maximum regulations and streamlining could be seen in those countries which are having set pattern of the governance and could also be co-related to the awareness to the investors. The development parameter is mentioned here because it is not a hidden factors that the countries like US and Germany are also having developed financial structure or markets which have paved way to their present status as developed countries of the world. The book is comprising of fourteen chapters which is covering various issues of the financial markets in South Asia. It opens with the brief introduction to overview of financial markets in south Asia through its first chapter and goes on to last chapter addressing various sectors of south Asian region with respect to challenges and issues.

The first chapter i.e. “Financial Market Regulatory Structure in South Asia: An Overview” is discussing about the regulatory framework in south Asia with a brief introduction about the financial market regulatory structure of major countries like India, Pakistan, Bangladesh, Nepal and Afghanistan. The international integration of financial markets of Asian countries sometimes leads to growth and sometimes leads to failure. This chapter have also analysed the issue of financial integration in south Asia and major challenges to the liberalising financial market of south Asia. Authors have discussed about the current laws and regulations governing capital markets of south Asian countries and what role is played by the financial market regulators in their respective country.

The second chapter i.e. “Regulatory Reforms in Indian Financial Market” among others. The chapters are covering the issues of the regulations at the financial markets of the different countries as well as in India. A recalibration of the overarching role of India’s financial market regulators is critical given the imperative of reducing income inequality and ensuring rapid economic development. Indeed, the functions and mandate of the financial markets regulators must be made more holistic for enabling a robust capital market environment, by focusing on three key pillars. This chapter majorly covers the issues pertaining to the need of the regulations, challenges posed by non-observance of the rules and remedies thereafter and how regulators of financial market in India like SEBI, RBI and IRDA has played a very imperative role in its expansion. This chapter has discussed about all the regulators of financial market and major reforms done by the government of India in harmonisation of financial infrastructure of India to make it investor friendly and a better place for inflow of foreign currency.

Whereas the third chapter, “Financial Sector Reforms in South Asian Countries” is discussing the issue of reforms covered a number of areas such as promoting competition in the financial sector, developing payment and settlement systems, and strengthening regulations. So far, these reforms have not only helped South Asian countries to significantly raise domestic savings, attract foreign capital, and raise economic growth rates but also provided greater economic integration of South Asia. East Asian financial crisis resulted in providing greater space for these new reforms. Another round of reforms took place in the 1990s. The current financial crisis, which began in the U.S. sub-prime mortgage market in 2007, has already prompted a reassessment of financial sector policy making globally to address many of the weaknesses in supervisory, regulatory and prudential frameworks. The beginning of the current global crisis was associated with complex financial products. South Asian financial sector didn’t have direct exposure to such products. Still the global financial crisis caused a considerable slowdown of South Asian economies as a result of contagion effects of global shocks. Some of the significant channels
that affected South Asian economies were capital, remittances, credit and international trade. Capital outflow, reduced foreign remittances, dried up international credit markets, and reduced exports have had serious implications for these economies.

The chapter four, “Insider Trading - A South Asian Study” is covering the matters of the insider trading mechanism in the South Asian countries. It is comprising of different parts, part I, II and III respectively. Part I shall give the readers a brief background of the insider trading activity, its accepted definition and the development of this malady. Part II shall provide a synthesis of the insider trading regulations and enforcement procedures existing in the South Asian countries of India, Pakistan, Sri Lanka and Bangladesh. Part III shall describe the challenges faced by such jurisdictions in restraining insider trading and subsequently, the amendments required to be enacted in these countries. Part I Insider trading undermines investor confidence in the fairness and integrity of the financial markets. This accounts for the reason why nearly every jurisdiction has strictly prohibited insider trading. The majority of legislators adopting statutes relating to insider trading have addressed the following issues: What is inside information? Who can be considered an insider? What activities related to using inside information are prohibited? How to prevent insider trading? What sanctions and enforcement measures should be implemented? The author has studied the regulatory framework of the South Asian countries under Part II and suggested measures to overcome the gaps of challenges faced by such jurisdictions in containing insider trading under Part III. In 2003, IOSCO’s Emerging Market Committee released a Report on Insider Trading analysing 41 jurisdictions all over the world. The Report has looked at the definitions of insider, unpublished information, and source of information, the materiality of information, the intent involved and finally the prohibited act of both dealing and tipping. Further, the regulatory structure surrounding this activity has been discussed in this Report. The chapter includes discussing the relevant parts of this Report, inter alia, the basic elements constituting insider trading: the power of supervisory bodies and civil and penal sanctions imposed.

The chapter five titled, “The permissibility of crowd funding within South Asia: a comparative analysis”, discusses a new concept of crowd funding and its aspects. Crowdfunding is best understood as the process by which a web based organisation seeks to procure funding from the general public through a web portal, the web portal enables unrelated business enterprises seeking capital to make equity within their entities available to investors. This was not permissible given the restrictions placed on public fundraising by the SEC Act. As asserted, Crowdfunding was largely motivated by individuals and organisations promoting profit motivated initiatives through crowdsourcing platforms, and also by the potential benefits to entrepreneurs associated with creating more enabling pathways to accessing start-up capital. While it may not be apparent there is a critical distinction between individuals soliciting for support through web based portals, and offering items in exchange for such support and individuals and organisations making equity or profits from a venture available for distribution in exchange for monetary support. While many crowdsourcing models do not involve the issuance of securities in the conventional sense they may be in direct contravention with the Securities and Exchange Commission Act.

The sixth chapter titled, “The impact of institutional factors on firm financing: Evidence from South Asian Countries”. The chapter is comprising of the study on the impact of the commercial environment on external financing of female owned small medium enterprises (SMEs) compared to those that are male owned in seven South Asian countries. The region exhibits weak institutional and regulatory regimes which result in expropriation of profits from SMEs. It is likely that such commercial environments add to the risk of lending to SMEs and this may further manifest in a gender bias toward males. An empirical investigation using a unique dataset of over 5000 firms from World Bank Enterprise Surveys is combined
with additional information drawn from World Bank macro-economic data and these data are analysed using interval and logit regressions. Low access to formal external financing is identified as a constraint to female SME owners compared to male counterparts in the South Asia region. The findings indicate that once females have access to formal financing they use a high proportion of formal financing in their firm capital structure than their male-counterparts.

The very interesting chapter i.e. chapter seventh with a long title, “Why Credit Ratings Serve a Greater Role in Emerging Economies than Industrial Nations: A Comparative Analysis between Family Firms and Concentrated Ownership Structures in South Asia” has argued that South Asia being emerging an economy, which are also based on family firms (concentrated ownership structures), why corporate governance measures - including the operation of audit committees, as well as greater focus on audits as signalling mechanisms, is crucial for purposes of facilitating the achievement of regulatory aims - as well as the development of accounting and regulatory structures. Through this comparative analysis, this chapter also aims to investigate whether information provided through credit ratings agencies in South Asia, is superior to those of macroeconomic indicators. The chapter also seeks to address gaps in the literature - gaps in the current and previous literature which support the fact that family firms, concentrated ownership systems and structures suffer from less problems and issues associated with information asymmetries than pre-dominantly based dispersed ownership systems and structures, as well as the above claim relating to the worth and informational value of credit ratings agencies - in particular that relating to the negative impact of credit ratings announcements and their more “significant” impacts in emerging markets. Finally, the chapter seeks to propose rules and recommendations whereby the current legal and regulatory challenges faced by financial markets in South Asia could be addressed.

The eighth chapter titled, “Volatility and the Regulation of Stock Markets, Evidence from South Asia” has analysed, Volatility, which expresses the variability of the return of any financial asset, has a very important place in the estimation of financial asset returns. As volatility is a significant indicator of the degree of risk of an asset, option and derivative pricing, it has come to be used as a parameter. The simplest definition of volatility is the sudden movement of prices. In other words, the market volatility of stocks is an indicator which is used to describe the frequency and size of the waves occurring in the stock market index or a specific stock price. The increasing volatility in recent years in the stock market as in all financial markets, has increased the interest of stock investors on this subject to a significant degree. The sources of the volatility of the stock market are important in terms of measurement and modelling as well as to specialists and portfolio investors.

The ninth Chapter titled, “Financial Market in Nepal: Challenges of the Financial Sector Development in Nepal” discuss about the overview of financial market regulatory structure of Nepal. This chapter have given a brief picture of financial market regulations of Nepal which is augmented by chapter tenth that has discussed about the reforms in Nepalese financial market.

The tenth chapter titled, “Financial Market Reforms in Nepal and its Presence in South Asia “covers, the financial market reforms in Nepal, it essentially starts with the discussion of conceptual issues and context of financial market reforms in the first part. The second part, basically reviews the sequencing of financial market reforms program in Nepal with detailed discussion on the past reform efforts and progress achieved on such programs. The third part deals with the issues and challenges of financial sector reforms in Nepal. The fourth part opens up the regional context of financial market reforms in South Asia whereas the last part concludes the chapter. Financial sector is considered to be important in most of the economies in order to pool and utilize financial resources, reduce costs and risks, expand and
diversify opportunities, increase the allocative efficiency of resources and promote the productivity. It is equally important to facilitate the economic growth in the country through its intermediation activities.

The chapter eleven, “Regulatory Challenges in Financial Sector in Afghanistan” is discussing the challenges in the Afghanistan and also discussing the remedies to overcome the challenges. Some of the people in the financial sector of Afghanistan are being contacted to get their opinion on the issue of finance and its sources in Afghanistan. The chapter covers the Stock Exchanges in Kabul – The key role of Afghanistan Stock Exchange in the economic development of Afghanistan. The way State Owned Enterprises work there in reference to the Afghanistan Stock Exchange. The status of the Banking Sector in Afghanistan – The model of banking in Afghanistan with reference to the strengthening of the currency. Along with some work experience of the people working in Bakhtar Bank, Afghanistan like the Company Credit Officer working there. The issues pertaining to Foreign Investment Policy in Afghanistan – where it is found that it is not update. There is no proper mechanism and channel of foreign investment in Afghanistan. The fear of an international investor in investing in the companies located in Afghanistan. Whereas how the Governmental Regulations in Company Matters is also discussed at length. This gives the complete picture of the market in Afghanistan.

The chapter twelve titled, “Islamic Finance in India: Financial Regulations, Challenges and Possible Solutions” covers the issues related to the Islamic banking”. Islamic finance is one of such modern concepts emerged at global level. Growing with an annual growth rate of 15-20 percent the Islamic finance industry is holding total assets, value estimated to be more than USD 1.6 trillion. Hence, the authors, in this paper tried to study the feasibility of providing Islamic financial services in India, especially in the areas of Retail banking, Microfinance, Venture Capital financing. The objective of this paper is to identify the major regulatory challenges facing Islamic finance and to propose the possible solutions so as to make this emerging industry an internal part of the Indian financial system.

The chapter thirteen titled, “Recent Status of Capital Market Regulations in Bangladesh”, covers the issues of regulating the markets in state of Bangladesh. The capital market of Bangladesh perceived a self-important growth which is not in line with developed economy. The Securities and Exchange Commission (SEC) tried to correct the irregular behaviour observed in the market, lack of proper decisions from the regulator’s side which has contributed to the creation of market instability. This study tried to identify the factors on market crash and regulatory failure. Government had reform SEC to soothe the market but unsuccessful as investors’ confidence is in the bottom level. The reasons behind the stock market crash are found irrational market behaviour, inconsistency in regulations, excess liquidity in the market, and stock split by companies, faulty listing system, issuance of right shares and preference shares by companies at high price, stock manipulations by insider trading, serial trading and excessive greed of investors. Government and regulators should work together to detect the main speculators and should bring investors back to the market.

The last chapter i.e Chapter fourteenth titled, “Economic and Financial Integration in South Asia” has discussed that going to that path of European union, counties in South Asia have formed an alliance called South Asian Association for Regional Corporation (SAARC) in 1985 with the objective of improving economic corporation and economic growth in the region. Going further in the path of economic integration, in 2002, leaders of SAARC have agreed to accelerate cooperation in the core areas of trade, finance and investment to realise the goal of an integrated South Asian economy in a step-by-step manner. They have also agreed to the vision of a phased and planned process eventually leading to a South Asian Economic Union (SAEU). Furthermore, they also have formed the SAARCFINANCE group which has been entrusted the responsibility of studying and making recommendations on the early and eventual
realisation of SAEU, a development bank for the region, single payment system and a single currency. The objective of this study is to explore how feasible is such proposals and in particular what prospects are there to form a monetary corporation among countries in South Asia. The chapter has further discussed that, the major obstacle to economics and financial market integration in South Asia would be the underlying political factors in the region. For example, disputes among nations on many issues are substantial and ongoing discussions would not be able to give a clear solution in the immediate future. All countries in the region have internal political issues as well as issues with neighbouring nations. For instance, India, the largest economy of the region, has disputes with Pakistan, the second largest economy. Countries such as Sri Lanka and Nepal both have long-run ongoing ethnical issues within their countries. When there is no political stability in a country, it is a difficult task to introduce significant structural changes through such countries have democratic political systems. Many countries in Asia, specifically in East Asia, have been able to achieve remarkable economic growth during the past, irrespective of the political system they had. After achieving notable economic development, many of these countries have now introduced democratic political systems. Apart from political, religious, ethnical, cultural and social issues in each country in the region, other issues such as corruption, institutional deficiencies, lack of transparency, inefficiency and regulatory problems are needed to be looked at.

The objective of this study is to measure the financial market integration, so far, among South Asian countries and explore existing fundamental obstacles to achieve long term goals for significant economic benefits. Such a comprehensive analysis is followed by policy recommendations which may be useful to SAARCFINANCE group in its efforts to form an SAEU.

We thank all authors for the quality of their contributions, as well as all referees who carefully reviewed the chapters.

Amit K Kashyap  
Nirma University, India

Anjani Singh Tomar  
Gujarat National Law University, India