Chapter 1

Financial Market Regulatory Structure in South Asia: An Overview

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ABSTRACT

South Asian region is comprising of countries Sri Lanka, Bangladesh, Afghanistan, Nepal, Bhutan, India, Pakistan & Maldives. The different countries are with different values, market standards & different investors. 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. This chapter is dedication to the brief overview of financial market regulatory structure in all major south Asian countries in SAARC region.

FINANCIAL SYSTEM AND FINANCIAL MARKETS: INTRODUCTION

The financial system of any country consists of specialized and non-specialized financial institutions, of organized and unorganized financial markets, of financial instruments and services which facilitate transfer of funds. (Kinnon, 1973) Procedures and practices adopted in the markets, and financial inter-relationships are also parts of the System. These parts are not always mutually exclusive. For example, financial institutions operate in financial markets and are, therefore a part of such markets. The word system”, in the term “financial system” implies a Set of complex and closely connected or intermixed institutions, agents, Practices, transactions, claims, and liabilities in the economy (Gurney and Shaw,
Financial institutions are business organizations that act as mobilizes and depositories of savings and as purveyors of credit or finance. They also provide various financial services to the community. (Pathak, 2003) They differ from non-financial (industrial and commercial) business organizations in respect of their wares, i.e. while the former deal in financial assets such as deposits, loans, securities, and so on, the latter deal in real assets such as machinery, equipment & so on. The activities of different financial institutions may be either specialized or they may overlap; quite often they overlap. Yet, we need to classify financial institutions and this is done on such bases as their primary activity or the degree of their specialization with relation to savers or borrowers with whom they customarily deal or the manner of their creation. (Shaw, 1973) In other words, the functional, geographic, sectoral scope of activity or the type of ownership is some of the criteria which are often used to classify a large number and variety of financial institutions which exist in the economy. However, it should be kept in mind that classifications are likely to be imperfect and tentative. According to one classification, financial institutions are divided into the banking and non-banking ones. (Stiglitz, 1993) The banking institution have quite few things common with the non-banking ones, but their distinguishing character lies in the fact that, unlike other institutions, they participation the economy’s payments mechanisms, that is, they provide transactions services, their deposit liabilities constitute a major part of national money supply, and they can, as a whole, create deposit or credit, which is money. Banks, subject to legal (Gurley, 1955) reserve requirements, can advance credit by creating claims against themselves, while other institutions can lend only out of resources put at their disposal by the savers. The distinction between the two has been highlighted Sayers by characterizing the former as “creators” of credit, and the latter as mere “purveyors” of credit. Financial institutions are also classified as intermediaries and non-intermediaries. As the term indicates, intermediaries intermediate between savers and investors, they lend money as well as mobilize savings, their liabilities are towards the ultimate savers, while their assets are from the investors or borrowers. Non-intermediary institutions do the loan business but their resources are not directly obtained from the savers. Many non-banking institutions also act as intermediaries and when they do so they are known as Non-Banking Financial Intermediaries.

Financial markets are the centers or arrangements that provide facilities for buying and selling of financial claims and services. The participants on the demand and supply sides of these markets’ are financial institutions, agents, brokers, dealers, borrower’s lenders, savers, who are inter-linked by the laws, contracts, covenants, and communication networks of the land (Basyal, 2002).

Financial markets are sometimes classified as primary (direct) and secondary (indirect) markets. The primary markets deal in new financial claims and securities and therefore, they are also known as New Issue Markets. (Burton, Nesiba & Brown, 2015) On the other hand, secondary markets in Securities already issued or existing or outstanding. The Primary markets mobilize savings and they supply fresh or additional capital to business units. Although secondary markets do not contribute directly to the supply of additional capital, they do so indirectly by rendering securities issued the primary markets liquid. Stock markets have both the primary and secondary market segments. (Calvo and Mendoza, 2000)

More often financial markets are classified as money markets and capital markets, although there is no essential difference between the two because both perform the same function of transferring resources to the producers. (Obsfeld & Taylor, 2002)

This conventional distinction is based on the differences in the period of maturity of financial assets issued in these markets. While the money market deals in the short-term claims (with a period of maturity of one year or less), the capital market does so in the long-term (maturity period above 1 year) claims.