

Headline: 25 years of NSE: How it revolutionised stock trading in India	
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25 years of NSE: How it revolutionised stock trading in India

Having begun its journey 25 years ago, NSE has been a catalyst for change ever since

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To explain how the NSE changed Indian trading environment requires a description of what stock trading was like, before the NSE arrived. India had a multitude of stock exchanges in the early 1990s with thousands of listed stocks, most of which were listed only on one or two exchanges.

Trading involved picking up the phone, and calling a broker who would give a quote. If you wanted to trade a share listed on an exchange that was not local to your city, it involved making an STD (subscriber trunk dialling) call. There were no mobile phones and needless to say, no Internet either. An STD call during office hours could cost Rs 15/ minute or more, assuming the connection worked at all.

The broker's quote always contained a generous brokerage fee. The investor never knew for sure how much the broker swallowed in a transaction, since you had no idea of the exact price of the transaction. At the end of the session, cyclostyled bhav copies would be faxed to brokerages, or collected from the exchanges. (Younger readers may need to look up "cyclostyle" and "fax"-cyclostyling was a printing technology invented in the 1880s, and fax machines were invented during the First World War of 1914-1918.)

After a trade, paper shares would be deposited and the ownership transferred through a cumbersome paper-intensive process that took about a fortnight - if you were lucky. Margining was effectively a matter of trust. Defaults were common. Trades could be carried forward using a complicated and opaque system of badla/ ulta badla.

The NSE suddenly changed those cumbersome processes. Thanks to its revolutionary VSAT technology, an investor could sit in front of a terminal in any of 50 different places, check the prevailing prices instantaneously, punch in a trade and see it go through with the exact transaction price.

You could dial into the exchange at the end of day, using a "modem" (millennials might need to look that word up - a modem was a sort of early router) and download a bhav file that contained the prices. Margining could be exactly calculated.

Above all, trades were reliable- defaults didn't happen, or rather, systems took care of defaults and auctions ensured honest traders did not suffer.

Not surprisingly, the NSE grabbed huge volumes instantly, and brokerage rates collapsed. Historic exchanges across the country that relied on prehistoric methods like open outcry and Victorian printing technology suddenly found themselves gasping for oxygen. They were forced to adopt the same new technology platforms and to reduce brokerages, and increase transparency, as the newcomer became overwhelmingly dominant.

The NSE has tended to stay ahead of the curve in terms of the technology it uses, and the breadth of contracts it offers. It expanded its equity list, it added derivatives, interest rate contracts, forex

contracts and what have you. It was in the forefront of pushing for demat, and for fast settlements. It offers vast quantities of useful downloadable data. It pushed for the end of badla. Almost all the old historic exchanges have disappeared. The BSE soldiers on, and it has transformed its own technology and improved its ease of transaction due to the pressure of competition.

Obviously, all this was possible because the NSE was the first corporate exchange and it was run on relatively transparent lines. I'm not saying that the NSE was perfect - it has had its share of controversies and continues to have them.

But it was way better than anything that existed in the early 1990s when it came into being. It has been a catalyst for change ever since. As of now, it continues to set the benchmark for Indian trading standards, and that is perhaps the greatest compliment one can pay the NSE on the eve of its 25th anniversary.

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