

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:625

ANSWERED ON:09.07.2004

FALL IN SHARE MARKET

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Will the Minister of FINANCE be pleased to state:

- (a) whether there was a sharp fall in the share market just after the declaration of election results of Lok Sabha for 2004;
- (b) if so, the details thereof and reasons therefor;
- (c) whether the Government has analysed the reasons;
- (d) if so, the findings thereof;
- (e) whether some vested interests were behind the sharp fall in the share market.
- (f) if so, the details thereof; and (g) the corrective action taken or likely to be taken in this regard?

Answer

MINISTER OF STATE IN MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) & (b): Election results were declared on May 13, 2004. Sensex closed at 5399.47 on May 13, 2004. Markets fell on May 14, 2004 (Friday) and the Sensex closed on May 14, 2004 at 5069.87, a fall of 329.6 points or 6.1% and Nifty at 1582.40 or down 135.10 points(-7.87%).

On May 17, 2004 (Monday), markets fell further with the Sensex closing at 4505.16, a fall of 564.71 points or 11.14% and Nifty closing at 1388.75 (-193.65) or down by 12.24%. During trading on May 17, 2004, market halted twice at around 10:16 am and again at 11:18 am. These halts were triggered by the circuit breaker mechanism which causes the market to halt for one hour when market index falls by 10% and for two hours when the market index falls by 15%. After touching a low of 4227.5 after the first trading halt, market recovered in the last session when trading resumed at around 1:16 pm.

(c) to (g): Securities and Exchange Board of India (SEBI) has informed that detailed investigations are continuing with regard to certain specific transactions which impacted the fluctuations in indices on and around May 17, 2004 and that regulatory action will be taken against any market player found to have resorted to any manipulation. In spite of significant volatility in the index on two consecutive trading days (i.e., on May 14 and May 17, 2004) the settlement and payment went through without any hitch, and there has been no broker default or broker failure. The robustness of the risk management system has been proven as the market withstood higher volatility as against the normal built in capacity of systems. SEBI risk management policy provides for automatic trading halt in all the stock exchanges under certain conditions. As a result of the efficiency of the risk management system, real time monitoring of the broker positions, provision for automated disablement of terminals and market wide circuit breakers, the market could withstand the volatility of this magnitude without any disruption or settlement failure. In fact, the exchanges did not have to draw upon the settlement guarantee fund. SEBI keeps under constant watch the developments in the capital markets in consultation with the stock exchanges, depositories and other agencies for detecting and preventing any manipulation and taking deterrent action.