17. Capital Markets

Q.1 Define capital market. Explain structure of its structure ?

Capital Market :- "Capital market is a structure that deals with all facilities and institutional arrangements for borrowing and lending funds for medium term and short term funds"

The Demand for long term funds comes from — Public Corporations, Private business Corporation and from Government.

The Supply for long term funds comes largely from individuals, banks and institutional investors etc.

(B) **Structure / Components of Capital Markets :-**

Capital markets

- I. Corporate Securities mkt.
- II. Govt. Securities Mkt.
- III. Long-Term Loan mkt.
- IV. Other Financial Agencies.

(I) **Corporate Securities market :-** This market provide funds to Companies for long Period. It is divided into two Parts :-
(A) Primary Market
(B) Secondary Market

(A) Primary Market :- Primary Market is the New Issue market of shares, Preference shares and debentures to public for first time. Under this market funds can be raiseed in following ways :-

1. Public Issue Through Prospectus.
2. Right Issue
3. Book Building
4. Offer for Sale
5. Placement method.

(B) Secondary Market :- "Secondary market deal with already issued Securities Market"
It deals with buying and selling of Securities with Stock market. The main stock exchanges in India are — Bombay stock Exchange and National stock Exchange.

(II) Government Securities Market :- Government markets deals with Securities such as bond issued by Central Government and State Government, FIs, and government bodies etc. Under this market, Securities are issued in the form of bond and Credit notes.

Government Securities market is also called as Gift-edged Securities market.

(3) Long-term Loan Market :- Long term loans are Provided for Expansion & modernisation. It is

OF three types :-

1) Term Loans Market :- Banks and FIs Provide term loans for a Period of one year. This market Provide better investment Opportunities.

2) Mortgages Market :- Under this market, loans are Provided against approved assets like— Land and building.

3) Financial Guarantees Market :- Under this market FIs and banks Provide Guarantees on behalf of their Clients to third Parties.

IF the client Fails to repay the loans, FIs and banks are liable to Pay loans to third Parties.

(IV) Other Financial Agencies :- Few financial Agencies also Provide funds in Capital Market. They are ——

(1) Stock Exchanges :- At Present there are 24 Stock exchanges in India. The National Stock Exchange (NSE), which was set in 1994, is the largest Stock exchange in the Country, followed by Bombay Stock Exchange (BSE).

The Stock exchanges helps in growth of Capital market through listing of securities & Trading of Listed securities.

② **Securities and Exchange Board of India (SEBI) :-**

SEBI was setup in 1988 by Govt. of India.
It started working more efficiently since 1992.
SEBI has power to regulate the activities connected with marketing securities and growth of capital market.

③ **Mutual Funds :-** The mutual funds collect funds from the public and other investors. It invest the same funds in primary & secondary market

e.g UTI was the first mutual fund set up in 1964 for growth of capital market.

④ **Merchant Banking :-** Merchant Banking service play an important role in growth of capital market. Merchant Banking provide various services like-

- Capital issue management,
- Consultancy services relating to promotion of projects,
- Corporate restructuring etc.

e.g In India first merchant Banking services started
in 1967 → Grindlays Bank
in 1970 → Citi bank.

⑤ **Venture Capital Funds :-** The venture capital provide medium and long term investment in

technically Projects and highly risky Projects.
After 1991, there was a boost to the Venture Capital in India. The venture Capital funds Provide three types of Capital —

i) Equity Funding
ii) Debt Funding
iii) Combination of Debt & Equity.

(6) Credit Rating Agencies :- Investors mostly rely on Credit rating and then invest in Companies. Due to Credit Rating Agencies Credit and Capital market grow well in India.

(e.g) CRISIL was the first rating agency Started in India in 1987. Other Credit agencies are — CARE, ICRA.

CRISIL → Credit Rating Information Services Of India Ltd.

CARE → Co-operative for Assistance & Relief Every where

ICRA → Investment and Credit Rating Agency.

Q.2 Discuss the growth of India Capital Market?

Growth of Capital Market :- East India Company had started trading in Securities in Mumbai and Kolkata in 18th Centure.
The Bombay Stock Exchange was started in 1875.

But after 1991, Indian market grew up with many Positive changes. Growth of capital market is brought due to following factors:—

1) **Growth of Stock Exchange :—** At Present there are 24 Stock Exchanges in India. The National Stock Exchange (NSE) was set in 1994, is the largest stock Exchange in India.

Main functions of stock Exchange are—

i) Listing of Shares of Public Companies
ii) Trading of shares.

2) **Setting up of SEBI :—** SEBI started ~~functionin~~ Functioning well since 1992. It plays an important role in growth capital in India. SEBI has power to regulate the activities connected with marketing, securities and growth of capital market. Main function of SEBI is to Protect ~~th~~ the interest of investors.

3) **Growth of Merchant Banking :—** Merchant Banking Service plays an important role in growth of capital market. It Provides various services like—

- Capital Issue Management
- Consultancy Services
- Corporate restructuring etc.

(e.g) In India Merchant Banking services is

Started in 1967 → Grindlays Bank
1970 → Citi Bank.

(4) Growth of Mutual Funds :- The mutual funds collect funds from the public and other investors. It invest the same funds in Primary and Secondary market. At present the investment by mutual fund have boost the growth of capital markets.

(e.g) UTI was the first mutual fund setup in 1964 for growth of capital market

(5) Growth of Financial Institutions (FIs) :- The Financial Institutions borrow funds by way of Bonds and other Securities and such Funds are lend to Corporate firms. FIs deal in Primary Market by subscribing to Issue of shares and debentures. They also deal in Secondary Market.

(6) Growth of multinationals (MNCs) :-
The MNCs require huge funds for setting up new Projects for expansion and modernization. MNCs can raise fund through –
- Issue of shares and debentures
- Loans from Banks
- Loans from FIs etc.

(7) Growth of Venture Capital :- The Venture Capital Provide medium and Long term investments in technically Sound Projects and highly risky Projects. After - 1991 - Liberalisation Period, there was a boost to Venture Capital market in India.

The Venture Capital Provide three types of Finance —
i) Equity Funding
ii) Debt Funding
iii) Combination of Debt & Equity

(8) Development of Credit Rating Agencies :- Investors mostly rely on Credit Rating Agencies. They invest in the Companies on the basis of Rating Provided by Rating Agencies.
Capital market grow very well in India due to Development of Credit Rating Agencies
e.g CRISIL, CARE, ICRA etc

(9) Corporate Governance :- Corporate Governance Provide Proper governance on the part of Board of Directors, and also Provide good management to Protect interest of Share holders and investors.

(10) National Securities Clearing Corporations :- The NSCC was Set UP in 1996 to give

guarantee all trade on National stock Exchange. Every trading of NSE is free from the risk of the Counter Party defaulting. Thus NSCC helps to avoid Payment issues on the NSE.

Q:3 Explain the Recent Reforms introduced in Indian money market? [OR]
What measures have been initiated by Govt. of India to strengthen the Capital market?

REFORMS IN CAPITAL MARKETS SINCE 1991:-

After 1991, the Government has taken several measures to develop capital market in India. They are —

(I) Primary Market Reforms :- To Strengthen

Primary market Several measures have been introduced—

(1) Abolition of Controller of Capital Issue (CCI) :-

Before 1991, CCI Used to monitored all Capital issues in market. But in 1991, Narsimham Committee Suggested to abolished CCI and therefore Govt. of India Setup SEBI in place of CCI.

(2) Securities and Exchange Board of India (SEBI) :-

SEBI Started Functioning well Since -1992. It Plays an important role in growth of Capital market. SEBI has Power to regulate the activities Connected with marketing Securities, and Growth of Capital market. Main Function OF SEBI is to Protect Interest OF Investor.

(3) Credit Rating Agencies :-

Various Credit Rating agencies were set up to grow capital market in India.

e.g CRISIL - 1988
ICRA - 1991 etc.

(4) FIIS Permitted to Operate in Indian Market :-

After 1991, Foreign Institutional Investors like- Mutual Funds and Pension Funds were allowed to invest in Equity Shares and in Debt Market.

(5) Underwriting optional :-

After 1991, Govt. made Underwritting is Optional to reduce the Cost for Companies. It was Subject to a Condition that →

"IF an issue was not under written and was not able to collect 90% OF amount Offerd, then entire amount Collected would be refunded to Investors."

(6) Disclosure standards :- According to SEBI Rules, all Companies are required to disclose all the transactions and specific risk associated with their Projects or Business.

(7) Freedom on Decision OF Par Value Shares :-
In Post Reform Period SEBI given Freedom to all Companies to determine Par value of Shares
e.g firms Can Issue Shares OF ₹ 1, or ₹ 10 & So on.

(8) Ban ON Merchant Bankers :- In Capital market, Merchant bank has to provide Capital Issue management, Consultancy Service, Corporate restructuring etc. So Merchant Banks are not allowed to Carry Fund based activities.

(9) New Regulations Covering Alternative Investment Funds (ALFs) :- In 2012, SEBI has Provided new regulations to Cover alternative investment Funds. e.g Venture Capital Funds
Social Venture funds
infrastructure funds
Small and medium enterprises Funds. etc

(10) Accessing Global Funds Markets :- After 1991, Indian Companies are allowed to raise resources through issue OF –

- American Depository Receipts (ADRs)
- Global Depository Receipts (GDRs)
- Foreign Currency Convertible Bonds (FCCBs)
- External Commercial Borrowings (ECBs)

Thus Indian Comanies are Provided global Finance at Low Cost of Funds.

(II) Secondary Market Reforms :-

Following are some of measures taken by government and SEBI —

(1) National Stock Exchange (NSE) :-

National Stock Exchange was set in 1994. It is the Largest stock market in the country. Trading on NSE can be done throughout the country with the network of satelite.

(2) Dematerialisation of Shares :- In Primary market and in secondary market, all the shares are traded with help of Demat of Shares. Even Bonds and debentures are allowed in Demat Form.

(3) The National Securities Clearing Corporation (NSCC)

The NSCC was set in 1996 to give guarantee all trades on National Stock Exchange. Every trade on NSE is free from the risk of the

Counter Party defaulting. Thus NSCC helps to avoid the Payment issues on the NSE.

(4) Mutual Funds :- The mutual funds collect funds from the Public and the Investors. It invest same funds in Primary and Secondary market. SEBI has the authority to lay down guidelines and supervise and regulate the working of mutual funds.

(5) Buy Back of Shares :- Since 1999, Companies are allowed to buy back of shares. It will help the companies to reduce floating equity stock in market.

(6) Internet Trading :- Investors can place orders with registered stock brokers through Internet. Internet Trading will help stock brokers to execute orders at greater Pace.

(7) Screen Based Trading :- The Indian stock exchanges were modernised with computerised Screen Based Trading System (SBTS) after 1991. It leads to better efficiency with Low cost, Low risk, Low risk of error and fraud etc.

(8) PAN Made Mandatory :- From 1st January, 2007, PAN made mandatory to have sound audit in Securities Market.

(9) To Fix Trading Hours :– During 2009-10, stock exchanges were permitted to set their Trading hours between 9 a.m to 5. P.M

(10) Small and Medium Enterprises (SMEs) Exchange :– Separate trading Exchange for SMEs were launched in 2012. It became functional in BSE in March-2012 and NSE in Sept-2012.

(11) Corporatisation & Demutualisation of Stock Exchanges :– Corporatisation will leads to Segregation of Ownership, Management and Trading Rights from each other.
Demutualisation of BSE is in Process.

(12) Trading in Central Govt. Securities :– In January-2003, Trading in Central Govt. Securities has been introduced by government. It increase more Capital investment by all classes of investors in equities.

(13) Rolling Settlements :– Under rolling settlement all trades executed on Trading day (T) are settled after certain days (N). This is called T+N rolling settlement.
Since 1st April-2002, Trades are settled under T+3 &
1st April-2003, Trades are settled under T+2

due to trade cycles.

(14) Derivatives Trading :- Derivative trading is Permitted on Two stock exchanges in India i.e NSE and BSE.

In June-2000 Derivatives trading in equities Started. At Present, there are Four equity derivative Products in India —

* i) Stock Futures
* ii) Stock Options
* iii) Index Futures
* iv) Index Options.

(15) Investor Protection :- From 1st oct-2001, central Govt. started Investor Education and Protection Fund - IEPF. The IEPF shall be Credit with amounts like - unpaid divided account of Companies
- matured deposits & debentures with companies
- unpaid claims etc. unpaid for

the Period of 7 years From due date of Payment.

The IEPF will be Utilised For Promotion of awareness among investors and Protect the interest of Investors.