



Capital Market Reforms

GOVERNMENT TRADING PRIMARY SYSTEM STOCK TRANSACTION MONEY COMPANY DEPT FINANCIAL FUNDS
CAPITAL SECURITIES EXCHANGE MARKET REGULATION SELL
BOND SECONDARY BANK BUY LONG-TERM INVESTMENT EQUITY
CONTROL

Capital Markets

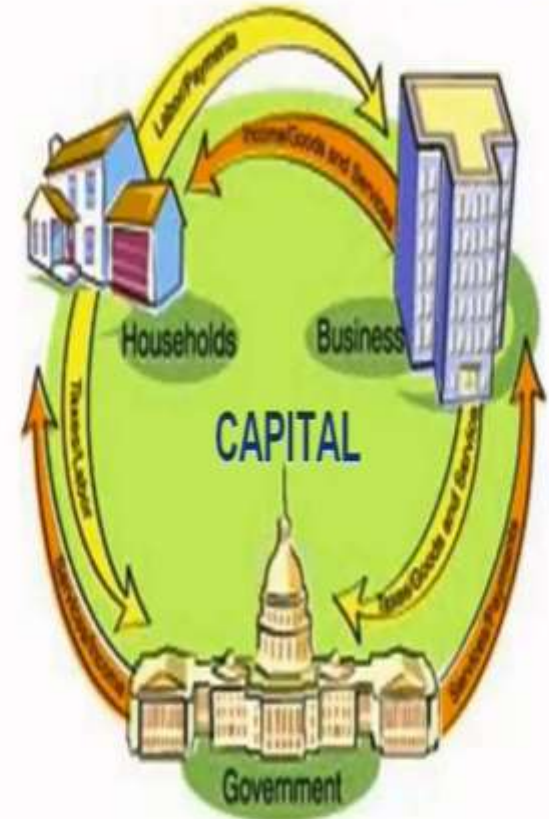
ABOUT



- A Capital market is where two parties, i.e., buyer and seller, come together to trade into financial securities.
- The Capital market consists of two types of parties, one who wants to invest their surplus fund and the other who needs the capital.
- Buyer and seller can be individuals and institutions.
- In this market, the trade of mostly long-term investment occurs with a lock-in period of more than one year.
- Capital market deals in all kinds of instruments: preference and equity shares, zero-coupon bond, debentures, secured premium notes, etc., and covers all forms of borrowing and lending.

CONTINUED...

- A place where institutions and mechanisms combine medium and long-term funds so that individuals, businesses, and governments can invest in the funds is called Capital Market.
- It includes both an organized market like security exchange and private placement sources.
- The Capital Market serves as the link between the savers and investors.
- This market involves a high-risk level as it trades in long term financial securities to raise funds and invest in long-term finance.
- It also encourages adopting the corporate governance rule, which improves the trading environment.
- The Capital market covers all the processes of transferring existing securities.
- The Capital market helps in improving the information quality for the investor regarding the investment.



TIME LINE

1994

- Equity Trading started at NSE

1995

- Online Trading

1996

- Commencement of Depositories

1999

- Globalisation- Participation of FII's

2000

- Dematerialisation of shares in the Indian Capital market

2001

- Movement of Stocks towards rolling settlement

2003

- T + 2 Settlement Cycle

CAPITAL MARKET



```
graph TD; A[CAPITAL MARKET] --> B[Primary market]; A --> C[Secondary Market]
```

Primary
market

Secondary
Market



- It is also known as the **"New Issue Market."**
 - The market where securities are introduced/ launched the first time for the buyers for investment purposes.
 - **Initial Public Offering (IPO)** and **Follow on Public Offering (FPO)** occur in the primary market.
 - When private companies issue shares for the first time to raise capital from the general public is known as an IPO.
 - This process helps a private company to transform into a public company.
- It is the market for old securities, which are already launched in the primary market.
 - It is the market where the trading, i.e., buying and selling of existing securities, occurs.
 - It is also known as the stock market.
 - The current investors can sell the stakes, and new investors buy the securities.
 - It consists of both over-the-counter market and stock exchange.

Financial Securities

```
graph LR; FS[Financial Securities] --- ES[Equity securities]; FS --- DS[Debt securities]; FS --- DerS[Derivative securities]; FS --- HS[Hybrid securities]; ES --> F[Futures]; ES --> For[Forwards]; DerS --> O[Options]; DerS --> S[Swaps]; HS --> EW[Equity Warrants]; HS --> CB[Convertible Bonds]; HS --> PS[Preference Share];
```

Equity securities

Futures

Forwards

Debt securities

Options

**Derivative
securities**

Swaps

Hybrid securities

Equity Warrants

Convertible Bonds

Preference Share

Equity Securities

This security gives a company ownership rights to the shareholders, which means that they are company owners. It is an investment in the stock of the company.

Debt Securities

It is also known as fixed-income securities. It represents the borrowed amount, terms of the repayment, interest rate, maturity period, and date. Consider Bonds such as government or municipal bond or a certificate of deposit as debt securities.

Derivative Securities

The value of this security depends upon the underlying assets. The assets can be stock, currencies, bonds, market indices, interest rates, and commodities like gold, silver, oil, etc. These securities are traded regularly on the stock market like other securities. Price change of these securities occurs when there is a change in the underlying assets' price. It does not have any value of its own like other securities. Investors need to have adequate financial knowledge to deals in this security and earn higher returns as it works differently from equity and debt security.

Hybrid Securities

The securities with characteristics of both equity and debt securities are known as Hybrid securities

DERIVATIVE SECURITIES

```
graph TD; A[DERIVATIVE SECURITIES] --> B[Futures]; A --> C[Forwards]; A --> D[Options]; A --> E[Swaps]; B --> B1["A standardised agreement between two parties to buy and sell the underlying asset at a specific price at a particular time in the future is known as a Future Contract."]; C --> C1["A customized agreement between two parties to buy and sell the underlying asset at a specific price at a particular time in the future is known as Forward Contract."]; D --> D1["An agreement between two parties that gives the right to the buyer of the contract to buy or sell the underlying asset at a future date, and the specific price is known as an Options Contract."]; E --> E1["It is a contract between two parties to exchange their liabilities or cash flows from two different financial instruments."];
```

Futures

A standardised agreement between two parties to buy and sell the underlying asset at a specific price at a particular time in the future is known as a Future Contract.

Forwards

A customized agreement between two parties to buy and sell the underlying asset at a specific price at a particular time in the future is known as Forward Contract.

Options

An agreement between two parties that gives the right to the buyer of the contract to buy or sell the underlying asset at a future date, and the specific price is known as an Options Contract.

Swaps

It is a contract between two parties to exchange their liabilities or cash flows from two different financial instruments.

HYBRID SECURITIES

```
graph TD; A[HYBRID SECURITIES] --> B[Equity Warrants]; A --> C[Convertible Bonds]; A --> D[Preference Share]; B --> E[Company issues options give the shareholder rights to purchase its shares at a specific price and specified period.]; C --> F[The Company issues bonds which they can convert into equity shares of the company.]; D --> G[These shareholders get preference while distributing dividends and capital gains over equity shares.];
```

Equity Warrants

Company issues options give the shareholder rights to purchase its shares at a specific price and specified period.

Convertible Bonds

The Company issues bonds which they can convert into equity shares of the company.

Preference Share

These shareholders get preference while distributing dividends and capital gains over equity shares.

FUNCTION OF CAPITAL MARKET

Economic Growth and Development

Encourage Saving Habits

Regulate Security Prices

Links Savers and Investors

Capital Formation

Reduction in cost and time of the transaction

Variety of services

Benefits to investors

Liquidity of funds

Helps Intermediaries

FUNCTION OF CAPITAL MARKET

Economic growth and development-

- The Capital market has emerged as one of the best sources of finance for the companies and provides various ways/options for investments to the investors, which help in capital creation in the economy leading to the economy's growth.
- The Capital market reflects the economic condition of the country. It helps in the proper allocation of resources.
- Adequate distribution of capital helps in the development and expansion of industries, which leads to the enhancement of the economy.



Encourage Saving Habits-

- Earlier, people had only two options for investment, i.e., land and gold, so if they were not able to save for that, then they used to do unnecessary spending due to lack of options.
- The development of the Capital market has given investors a variety of investment options based on their risk appetite and needs, which has encouraged them to save more.

CONTINUED...

Regulate Security Prices-

- It continuously monitors securities trading and regulates the prices of the securities.
- It monitors the whole trading process and prohibits any speculative activities in the market.
- Provide funds at a lower interest rate to the borrower, which leads to stabilization of the security price.



Links Savers and Investors-

- It acts as a link between savers and investors as it transfers the surplus fund from the people to the organization that needs funds.
- It provides an online platform in the form of NSE and BSE to execute the trade efficiently.

CONTINUED...

Capital Formation-

- The Capital market has a vital role in the formation of capital in the economy.
- It caters to the financial needs of all the sectors by providing them sufficient funds on time.
- It transfers the funds towards productive use instead of keeping idle.



Reduction in cost and time of the transaction-

- The whole process of trading is performed electronically via automated systems and programs.
- The speed of the process increases, which leads to a reduction in the cost and time of the transaction.



CONTINUED...

Variety of services-

The Capital market provides services like export finance, underwriting, consultancy, credit ranking, merchant banking, etc., to the investors.



Benefits to investors-

- The Capital market provides a variety of options to investors for long term investment.
- It also offers various instruments like bonds, mutual funds, stocks, insurance policies, etc., for investment, which helps investors diversify their funds according to their risk appetite and needs.
- Also, it continuously monitors the market to protect investors from fraudulent and speculative activities.

CONTINUED...

Liquidity of funds-

- As this market consists of organized stock and other exchanges, there are readily available buyers and sellers for the investment.
- Due to which it becomes a liquid market, and funds are readily available.



Helps Intermediaries-

- Intermediaries are required to execute a transaction or a trade, like Brokers, Banks, etc.
- As the Capital market is flourishing, it helps the intermediaries to grow their business.

REFORMS IN THE INDIAN CAPITAL MARKET

Circuit Breakers

The Capital market introduced "Circuit breakers" to decrease large sell-offs and panic selling, known as "Collar."

The Capital market stops trading of a particular stock or index for some time if they notice that price fluctuation is more than 10%, 15%, or 20% to reduce the panic among investors and check if any manipulation occurs.

Investor Awareness Program/Campaign

SEBI has launched many investor awareness programs to make investors aware of the fraudulent activities, give them working knowledge of the market, and make it more secure.

CONTINUED...

Reduce Price Volatility-

- Volatility means the rate at which the stock price fluctuates or moves up and down.
- If there is more volatility, there is uncertainty and risk in the market, so it is considered a negative factor.
- The introduction of Index Futures trading in 2000 has reduced the price volatility in the market.



Investigation-

SEBI conducts an inquiry if any fraudulent activity is reported or violations of rules and regulations are noticed under the SEBI Act, 1992.

CONTINUED...

T + 2 Settlement Cycle

In 2002, the Capital market introduced the "T+3" days settlement cycle, which later changed to "T+2" days.

T is the trading day, and "T+2" means the shares are credited into the account after 2 days of trading, i.e., if the trade has happened on Monday, shares will be credited into the account on Wednesday.

Ban on Insider Trading

Using confidential information about a particular company to make an unethical profit from the stock market is known as Insider Trading.

SEBI has given clear guidance to prohibit insider trading in the Indian Capital market.

CONTINUED...

Economic Liberalization due to Indian Capital Market-

- In India, the Capital market has encouraged economic Liberalization, which led to privatization and deregulation of public sector companies, making shares of those companies available to the general public.
- The government adopted industrial policy prohibits investment by the private sector or individual in public sector companies; due to privatization, their shares are available for the public.



Banks and Capital Markets-

- Banks were allowed to give loans against the shares and debentures to the individual, trust, investment companies, stockbrokers, corporate and industrial buyers, and SEBI approved market makers to strengthen the Indian Capital market.
- It also increases the liquidity in the market, which leads to a reduction in the movement of price.



CONTINUED...

FERA Companies

The limit under FERA of 40% equity shareholding by foreign investors is removed.

Now they can invest up to 51%; this has attracted more investment from foreign investors in the Indian market.

Sensitivity Index in Indian Capital Market

The top 30 companies whose values and volumes of shares show the market condition is represented as a sensitivity index.

The sensitivity index indicates the market's prevailing state and the situation that the market will face.

CONTINUED...

Access to International Capital market-

By way of American Depositary receipts (ADRs), Global Depositary Receipts (GDR), Foreign Currency Convertible Bonds (FCCBs), and External Commercial Borrowings (ECBs), Indian corporate were allowed to raise funds from the international Capital markets.



Investment Options for NRIs in India



mymoneysage.in

Regulation of NRI Investments-

- Adaption of FERA into FEMA in India has encouraged NRI investors, leading to an increase in investment to 24% from 5%.
- Foreign financial institutions can make a direct investment in the Indian Capital market.
- The lock-in period has been reduced to 1 year from 3 years for NRI to invest in Indian companies' equity shares.

CONTINUED...

Online Trading in Indian Capital Market

After introducing an online trading system in the Indian Capital market, it became easier and transparent to execute a trade in the Capital market.

It has helped investors execute a trade from anywhere in India or outside, and they need not go to the stock exchange to trade in the stock market.

It has attracted and encouraged more investors to start dealing in the Capital market.

Transparency through online trading

Online trading has made the trading system more transparent in India.

At any time, investors can see the prevailing market rate, due to which brokers cannot manipulate the customer, and investors get the full profit. Now, brokers cannot manipulate the opening and closing price of the shares.

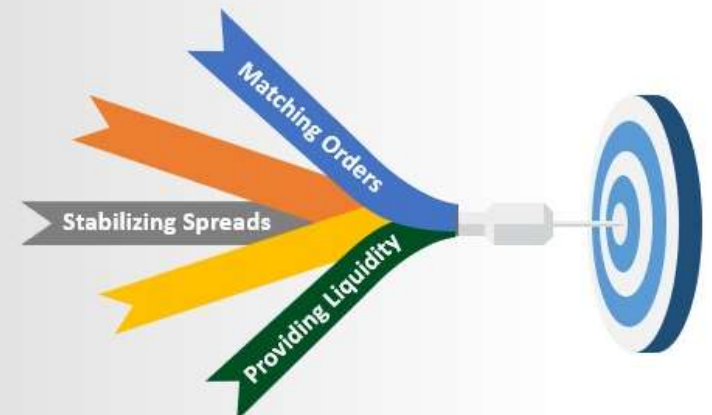
CONTINUED...

National Stock Exchange-

- Investors can deal in the shares of a company that is in any part of India on the National Stock Exchange (NSE).
- It has increased the scope of the market and shows an accurate picture of the companies.
- Price prevailing on the NSE is the benchmark of the stock price. It has helped the leading companies to trade their share from a single market.



Market Maker



Market Makers-

- In the Indian Capital market: the company's share prices are decided based on supply and demand.
- Market Makers ensure the prices and supply of the company's stocks, which has prohibited the brokers from manipulating the share price.

CONTINUED...

Demating of shares in the Indian Capital market

In the Demat system, the physical transfer of shares does not occur. It is also known as "script-less trade."

The shares are credited into the investors' Demat account, where they can check the number of shares, invested amount, current and total profit and loss.

Every transaction generates revenue for the government in the form of registration and stamp charges.

Over The Counter Exchange of India

Over the Counter Exchange in India is a stock exchange formed for newly promoted companies with fewer terms and conditions as they couldn't get listed on the other stock exchange.

It was explicitly created for the companies with low share capital and wanted to get listed on the stock exchange.

CONTINUED...

Promotion of Mutual Funds

The second most significant reform in the Indian market was that the private sector firms were allowed to start Mutual funds.

The funds raised by selling units to the public were invested in various company's shares and debentures.

Nationalized and non-nationalized banks have promoted Mutual Funds (MF), which has boosted the Indian Capital market.

MF provides various schemes like equity-based, debt-based, and hybrid, i.e., a mixture of equity and debt, which was very helpful for the public as they can choose according to their goals.

The SEBI regulates MFs. They were also allowed to invest in foreign equities.

Merchant Bankers (MBs)

Merchant bankers were allowed to participate in the stock market.

SEBI regulates its operations and functions.

MBs help companies in budgeting and guides foreign investors regarding the purchase of securities.

Through the financial markets, the merchant bankers help some of the Indian companies obtain fresh capital.

SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

- The most crucial development in the Indian Capital market was the introduction of SEBI as the regulating body of stock exchange in India.
- SEBI has replaced the Controller of Capital issues and has brought uniformity in all stock exchange transactions.
- The SEBI was formed in 1988, but in May 1992, it got legal power to control the financial market.



SECURITIES AND EXCHANGE
BOARD OF INDIA



ROLES, REGULATIONS, AND OBJECTIVES OF SEBI



Ensure that all the listed companies disclose their financial statements on a quarterly and yearly basis as required.

Brokers and other professional bodies do not manipulate the investors.

Ensure that MFs are disclosing all the information to the investors, which can change their decision.

Developing a code of conduct for mutual funds sellers, brokers, etc.

Ensure that investments are safe.

Rights of the investors are protected.

The operation of the stock market is in a fair and orderly manner.

INTERMEDIARIES ASSOCIATED WITH THE SECURITIES MARKETS

Stock Brokers

A professional trader engaged in buying and selling the stock on behalf of their customers is known as a Stock Broker.

Sub broker

A non-trading member of a stock exchange who acts as an agent on behalf of a trading member and assists the investors in trading through the trading member's platform is known as Sub-Broker.

Merchant Bankers

Person who is engaged in the business of share issue management or acting as manager, consultant, or rendering corporate advisory services regarding such issue management.

Underwriters

An underwriter is a person who determines the price and risk of a particular security.

Bankers to an Issue

Company authorizes a bank to carry out all activities relating to the issuance of shares is known as Bankers to an Issue.

Portfolio Managers

A person or group which creates and manages portfolio of an individual or company consists of investments in various mutual funds, shares, debentures, or any other assets.

Debenture Trustees

It is a link between the debenture holders and the issuing company and holds the property on behalf of the issuer company.

FINANCIAL MARKET INTERMEDIARIES



CONCLUSION

- Indian Capital market has undergone lots of change in the past years.
- The introduction of SEBI as the regulator of the Indian Capital market was the most crucial change.
- It lay down the rule and regulations for the Capital market and monitor its activities continuously.
- If any complaints are registered against any person, broker, company, etc., related to the investors' stock market, then SEBI has the right to cancel its license and give punishment.
- After the evolution of technology in the Capital market sector, trade has become more comfortable, time-saving, and transparent.
- Investors can see the current market price and execute the trade anytime in the trade hours from anywhere in India or outside.
- The Capital market has given a variety of options to the investors for investment based on the availability of funds, aim, and risk appetite.

Thank You!

Contact us-



ADDRESS

H 55 Sector 63 Noida-
201301
(Uttar Pradesh)




E-MAIL

info@enterslice.com



MOBILE

9870310368
 9810688945

Written by

Pallavi Singh

||Financial Researcher – Enterslice||

