Overview of Capital Market

Financial System – It is a system where all financial transactions are deal with
- Cash
- Credit
- Cheque or Bill of exchange

It comprises of
1. **Products –** Equity Shares, Bonds, Debentures, Fixed Deposits, Treasury bill etc.
2. **Intermediaries –** Banks, Underwriters, Merchant Bankers, Brokers etc.
3. **Participants –** Investors in the form of Individuals, Corporate, Government etc.
4. **Regulators –** SEBI, RBI, IRDA. etc

Good financial system helps in:-
a. Regulating the economy.
b. Protecting the interest of investors.
c. Providing education to investors.
d. Controlling currency movements, inflation, deflation etc.
e. Maintaining Liquidity.
f. Performing banking function.

Financial market – It is the market which provides a platform
- To allocate saving into investments.
- To provides various investment opportunities.
- To provides a base for raising finance.

2007[June] "The financial markets have two major components- the money market and the capital market."Discuss [5 Marks]

Basis	Money Market	Capital Market
Meaning	Market of Short term funds	Market of Long Term Funds
Time period	Less than 1 year	1 year or more
Risk	Low	High
Return	Low	High
Liquidity	High	Low
Regulator	RBI	SEBI
Instruments	Treasury Bills, Commercial Paper, CDs etc.	Equity Shares, Bonds, Debentures etc.

Security market - It is the market where buying and selling of securities takes place.
- It creates a link between savings and investments.
- It provides liquidity to the investors.

Security market is of 2 types:
1. **Primary Market**
2. **Secondary Market**

2008 Dec - Distinguish between:
Primary market and Secondary market [3 Marks]
2011[Dec] - The securities market has two interdependent and inseparable segments. [3 Marks]

Primary Market	Secondary Market
It is the market place where the securities are issued for the first time.	It is the market place where existing stocks are bought and sold by the investors.
It deals with new issue of securities.	It deals with the previously issued securities and financial instruments.
In this, securities are issued directly to the investors by the issuers.	In this, securities are purchased & sold by the investors through the medium of stock exchange and stock broker.
Examples: IPO, FPO, Right Issue, Bonus Issue etc.	Examples: Stock, Bond, Futures, Options etc.

2010[June] "Primary market is of great significance to the economy". Discuss [4 Marks]

Ans: Primary market is a mechanism which facilitates the raising of funds.
- It is the market for new issues.
- It enables flow of funds from investors to entrepreneurs for effective and productive purposes.
- It creates a link between the parties who want the capital and of those who have it.
- It is affected by the forces of supply and demand.
- It mobilizes resources for new projects as well as for existing project.
- The company uses the funds for creating new products and rendering services to customers.

2013[Dec] Different methods of raising funds by a company from primary market [4 Marks]

Ans: Companies can raise funds to meet the capital requirements of any project or to expand the business through primary market.
Different methods of raising funds from primary market:
1. IPO (Initial Public Offering)
2. FPO (Further Public Offering)
3. Right Issue
4. Bonus Issue
5. Preferential Issue

2007 [June] – Outline the main legislation governing securities market in India. [4 Marks]
2010 [Dec] - "A well functioning securities market is conducive to sustained economic growth of a country." Comment and discuss briefly the regulatory framework of securities market in India. [7 Marks]
2012 [June] – "Securities market enhances the pace of economic growth". Discuss. [5 Marks]

Ans - A well functioning securities market is conducive to sustained economic growth of a country. The security market fosters economic growth to the extent that it –
1. Serves as a mechanism for converting real saving into investments.
2. Increases the net capital inflow from abroad.
3. Raises the productivity of investment by providing various investment opportunities.
4. Provides various sources of raising fund to the corporate.
5. It reduces the cost of borrowing of capital for the companies.

The regulatory framework of securities market in India –

1. **SEBI Act 1992**
- To protect the interest of the investors.
- To promote the development of security market.
- To regulate the security market.

2. **Depository Act 1996**
- To provide for the electronic maintenance and transfer of ownership of securities in demat form.
- To provide the functions of dematerialization & rematerialization of securities.

3. **Securities Contract Regulation Act 1956**
- To governs trading in securities in India.

- To regulate the transactions in securities through control over stock exchange.
- To lays down norms for transfer, transmission and dematerialization of securities.

4. Companies Act 2013
- To comply with all the companies whether listed or unlisted.
- To covers all the aspects relating to issue of different securities such as equity shares, debentures etc.

2009[Dec] "PAN has to be sole identifier number for all transactions in the security market" [5 Marks]

Ans: PAN (Permanent Account Number) is the sole identification number for all participants in the security market.
- PAN is mandatory for the opening and operating all demat account.
- SEBI has made mandatory requirement of PAN for all transactions in the security market.
- Without PAN, investor is not allowed to deal in the security market.

2014[Dec] – What do you understand by IOSCO? Briefly discuss the different membership categories of IOSCO? [6 Marks]

International Organization of Securities Commission (IOSCO)
It is an organization which is recognized as the international standard setter for all securities markets.

Objectives
1. To Protect Investors
2. To Ensures that market is fair, efficient and transparent.
3. To Reduces systemic (universal/complete) risk.

Membership

Basis	Ordinary	Associate	Affiliate
Who can be a member	1.Government; or 2.Statutory / Regulatory body which governs the stock market; or 3.Stock Exchange	1. National Regulatory Body Note: SRO can`t be a member.	1. Self Regulatory Organization; or 2. Stock Market Association
Voting rights	Yes	No	No
Example	SEBI	FMC(Forward Market Commission)	MCX(Multi Commodity Exchange) NSE(National Stock Exchange) BSE(Bombay Stock Exchange)

MMoU – Multi-Lateral Memorandum of Understanding
- It is a set of an international benchmark related to securities laws and security market.
- It is to be signed by each and every member country.
- It represents a common understanding amongst signatories about how to consult, cooperate, and exchange information for securities regulatory & enforcement purposes.