

CAPITAL MARKET

INTRODUCTION -

The capital market today is a reality met in any modern economy. It is a market the necessity of which is unchallengeable, an extremely dynamic and innovative structure, permanently adapting to the economic environment and at the same time an influential factor of it, generating opportunities and to the same extent risk for all categories of participants to the economic activity, being a replica of a national economy to a small scale, but nevertheless especially representative. Tributary to the conditions in which it was formed and developed, the capital market brings together under this syntagma different conceptions. The continental-European conception attributes to this market a more comprising structure, containing the monetary market, the mortgage market and the financial market. In the Anglo-Saxon conception, which the economic practice has also adopted in our country, the capital market is a component of the financial market together with the monetary market and the insurance market. The main objectives of a capital issue are given below.

- To promote a new company
- To expand an existing company
- To diversify the production
- To meet the regular working capital requirements
- To capitalize the reverses

CAPITAL MARKETS COMPONENTS AND FUNCTION-

The specificity of this market derives from numerous aspects, but defining and at the same time delimitative in relation to other components of the financial market are the following Traits:

- It is a market specialized in transactions with medium and long term financial assets, Unlike the monetary market which offers solutions for refinancing through short and medium term capitals;
- It is a public, open and transparent market, in the sense that anyone can be a participant on this market, without there being notable entry or exit barriers, the transactions having a public character;
- The dissemination of information on this market, through its volume or, quickness and with the possibility of equal reception by all participants, is probably the best one from the ones existing in the structures of a market economy;
- The capital circulation vehicle is represented by securities, characterized through negotiability of the price and immediate transferability with very low transaction costs;
- The transaction is made through intermediaries, who have an essential role in connecting the owners or issuers of securities with the owners of capitals;

□ It is an organized market, in the sense that the transactions are performed according to certain principles, norms and rules known and accepted by participants.

In a market economy, the role of the capital market is of first rate. The well functioning of the capital market is vital in the contemporary economy in order to be able to perform an efficient transfer of money resources from those who save towards those who need capital and those who succeed to offer it a higher capitalization; the capital market can significantly influence the quality of the investment decisions.

MEANING OF CAPITAL MARKET –

A capital market is market for securities (Debt or Equity), where business enterprises (Companies) and government can raise long term funds.

The primal role of this market is to make investment from investors who have surplus funds to the ones who are running a deficit. Capital Market is a place where different financial instruments are traded between different entities. On one side there are entities that have abundant capital, much more than they require and on the other side, there are entities who need capital for various purposes. Capital markets are used to sell equities (stocks), debt securities.

Why do we need the capital market?

Capital market is a cog in the wheel of the modern economy since capital markets move money from the entities that have money to the entities that require money for productive use.

Which are the most common capital markets?

Stock market and Bond market are considered as the most common capital markets.

CAPITAL MARKET – STRUCTURE

Capital markets structure is made of primary and secondary markets.

Primary markets consist of companies that issue securities and investors who purchase those securities directly from the issuing company. These securities are called Initial Public Offerings (IPO). Whenever a company goes public it sells its stocks and bonds to large institutional Investors like hedge funds and mutual funds. The main investors in this type of market are financial institutions, banks, HNIs, etc

Secondary markets are places where the trade of already issued certificates between investors are overseen by regulatory bodies. Issuing companies play no part in the secondary market.

The stock market is the story of cycles and of the human behavior that is responsible for overreactions in both directions.”- Seth Klarman

FEATURES OF CAPITAL MARKET –

1. Serves as a link between Savers and Investment Opportunities:
2. Helps in Capital formation:
3. Long term Investment:
4. Helps Intermediaries:
5. Rules and Regulations:

The main Financial Intermediaries of India include:

- Stock exchanges: These include the NSE (National Stock Exchange), BSE (Bombay Stock Exchange), MCX (Multi Commodity Exchange), etc.

- Banks

- Insurance Companies

- Pension Fund / Mutual Fund

Indian capital Market:--

The Indian Capital Market is one of the oldest capital markets in Asia which evolved around 200 years ago

DEVELOPMENTS IN THE INDIAN CAPITAL MARKET-

The Indian Capital Markets have been going through various developments over the years and the most significant of them have been listed below: –

1. + 2 Settlement Cycle –Currently in the Indian Capital market, the settlement cycle is in the “T+2” cycle. Here, ‘T’ means the trading day, and the ‘T+2’ settlement means the settlement and delivery of the shares takes place on the 2nd trading day after the trade takes place.

2.Ban on Insider Trading: - Individuals possessing confidential information of a particular company can use the information to unethically profit from the stock markets. SEBI has made it clear and mandatory to restrict all kinds of insider trading in the Indian Capital Markets.

3.Investor Awareness Campaign- To make the markets more secure for the investors, SEBI introduced the Investor Awareness Campaign by making an official site for this.

4.New Measures of Risk Management:-Investments in Capital Markets are exposed to various risks. Though some are systematic risks, others happen as a result of unsystematic market activities.

- Measures to reduce Price Volatility

- Circuit Breakers

5.Investigations - In case of any violation of the rules and regulations of the SEBI Act 1992, the investigation is carried out by SEBI.

ROLE OF SEBI IN INDIAN CAPITAL MARKET-

With the bloom of the scale of actions in the financial markets, there were a lot of malpractices taking place. Practices like a false issue, delay in delivery, violation of rules and regulations of stock exchanges are on a rise. In order to curb these malpractices, the Govt. of India decided to set up a regulatory body known as the Securities Exchange Board of India (SEBI).

The roles and objectives of SEBI are elaborate and have been described as below:

- SEBI has power to make new rules for controlling stock exchange in India. For example, SEBI fixed the time of trading 9 AM and 5 PM in stock market.
- SEBI has power to provide license to dealers and brokers of capital market. If SEBI sees that any financial product is of capital nature, then SEBI can also control to that product and its dealers.
- SEBI has many powers for stopping fraud in capital market.
- It can ban on the trading of those brokers who are involved in fraudulent and unfair trade practices relating to stock market.
- It can impose the penalties on capital market intermediaries if they involve in insider trading.
- SEBI sees whether this merge or acquisition is for development of business or to harm capital market.
- SEBI uses his powers to audit the performance of different Indian stock exchange for bringing transparency in the working of stock exchanges.
- To develop a code of conduct for the intermediaries such as brokers, mutual fund sellers etc
- Ensuring the safety of the investments and Protecting the rights of investors.

REFORMS IN CAPITAL MARKET OF INDIA –

The Major Reforms undertaken in capital market of India includes-

- 1.Establishment of SEBI
- 2.Establishment of Creditors Rating Agencies
- 3.Increasing of Merchant Banking Activities
- 4.FII and performance of Indian Economy
- 5.Rising Electronic Transactions
- 6.Growing Mutual Fund Industry
- 7.Growing Stock Exchanges
- 8.Investor's Protection
- 9.Growth of Derivative Transactions
- 10.Insurance Sector Reforms
- 11.Commodity Trading

ACTS GOVERNING THE CAPITAL MARKET –

1.The Depositories Act,1996- The Act regulates the depositories in Securities. The primary objective of this Act is to ensure free transferability of securities with speed, accuracy and security

2.Securities Contract (Regulation) Act, 1956- The regulatory Act deals in all types of issues related to Stock trading. The Act aims at smooth functioning of the stock exchanges. It prevents any kind of defective transactions. It especially deals in listing of stock exchanges and contracts in securities.

3. **Security and Exchange Board of India Act, 1992**- This Act provides the statutory powers to the SEBI organisation. The Act provides wide powers and scope to the SEBI in order to effectively and efficiently run the capital market.

CONCLUSION –

The Indian capital market has undergone many changes after the challenges and the irreparable loss faced over years. There have been massive and revolutionary changes over years, and some significant changes that have reduced the financial scam cases. There has been a reduction of malpractices of trade over the years. The capital market has made tremendous progress in terms of institution building. They have transformed and developed the lives of investors and market intermediaries. The market has been friendlier by boosting performance and eliminating the challenges.