

CS Foundation Course

(e-bulletin for Foundation Programme Students)



THE INSTITUTE OF
Company Secretaries of India
भारतीय कम्पनी सचिव संस्थान
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament
(Under the jurisdiction of Ministry of Corporate Affairs)

MAY 2021

Message from the President



“Be strong now, because things will get better. It might be stormy now, but it can’t rain forever”.

Dear Students,

While the year 2020 marked the beginning of the pandemic, it is the second wave in the year 2021 which has proved to be much more challenging and fatal. The impact of the same is being witnessed not only at an individual level but at a community, national and global level. Where on one hand, the functioning and operation of economies has been halted and disrupted, we as individuals have been facing challenges unprecedented. As students, where on one hand situations pertaining to our own health and well-being and that of our loved ones are being dealt with a personal level, as a professional in making the uncertainties of future have been surmounting.

However, holding strong to the thought that we shall all sail through these times of turbulence together, your Institute has undertaken several important decisions and launched several initiatives. The Institute, with a view to protect the interests of the students, their well-being and safety in view of Covid-19 Pandemic situation, has decided that the Examinations for Foundation, Executive and Professional Programme scheduled to be held from 1st June, 2021 to 10th June, 2021 stand postponed. Furthermore, temporary

relaxation has also been provided in the Training Guidelines for conducting all types of training program through online mode till 30th September 2021. I am sure that all of these along with our patience, perseverance and grit and combined efforts shall lead us through these times of distress on the other side.

Friends, as human beings we are considered to be the ones firmly believing in traversing through tempest of situations and sailing through. For us barriers and bottlenecks are temporary and more so, we consider them as opportunities. In view of this, despite all odds created by the pandemic it is a common understanding that we should not stop our learning process for it is only when we continue to learn that we continue to grow. It is with this very intent that Institute rolled out the Bi-weekly Interactive Video sessions to deliberate upon crucial aspects of modules and subjects and clarify academic queries of students in a streamlined manner by Academic Officers and Expert Faculties. Given the response received from the students, to me this initiative is an out and out success and I hope that you shall keep on reaping maximum benefits from all such initiatives launched by the Institute from time to time for the upgradation and enhancement of your knowledge base. For as the Sanskrit shloka says,

नास्ति विद्यासमो बन्धुः नास्ति विद्यासमः सहत् ।
नास्ति विद्यासमं वित्तम् नास्ति विद्यासमं सुखम् ॥

*(There is no relative equivalent to knowledge, there is no friend equivalent to knowledge.
There is no wealth equivalent to knowledge, there is no happiness equivalent to knowledge.)*

Stay Safe! Stay Healthy!

(CS Nagendra D. Rao)

President

The Institute of Company Secretaries of India

Academic Guidance

CAPITAL MARKET

INTRODUCTION

The Capital Market is a market for financial investments that are direct or indirect claims to capital. Capital Market is that part of the financial system that is concerned with the industrial security market, government securities markets, and long-term loan market.

Capital Market is wider than the Securities Market and embraces all forms of lending and borrowing, whether or not evidenced by the creation of a negotiable financial instrument. A market that serves the medium & long-term liquidity needs of borrowers & lenders and therefore embraces all terms of lending & borrowing.

The capital market comprises institutions and mechanisms through which intermediate terms funds and long-term funds are pooled and made available to business, government and individuals. The capital market also encompasses the process by which securities already outstanding are transferred. This market is also referred to as the **Barometer of the economy**.

NEED FOR CAPITAL MARKET

Capital market plays an extremely important role in promoting and sustaining the growth of an economy.

- It is an important and efficient conduit to channel and mobilize funds to enterprises, both private and government.
- It provides an effective source of investment in the economy.
- It plays a critical role in mobilizing savings for investment in productive assets, with a view to enhancing a country's long-term growth prospects, and thus acts as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace within the global arena.
- In addition to resource allocation, capital markets also provide a medium for risk management by allowing the diversification of risk in the economy.
- A well-functioning capital market tends to improve information quality as it plays a major role in encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment, which is founded on integrity.



* CS Puneeta Ahuja, Consultant, The ICSI.

Views expressed in the Article are the sole expression of the Author and may not express the views of the Institute.

- Capital market has played a crucial role in supporting periods of technological progress and economic development throughout history.
- Among other things, liquid markets make it possible to obtain financing for capital-intensive projects with long gestation periods. This certainly held true during the industrial revolution in the 18th century and continues to apply even as we move towards the so-called “New Economy”.

FUNCTIONS OF THE CAPITAL MARKET

The major objectives of capital market are:

- To mobilize resources for investments.
- To facilitate buying and selling of securities.
- To facilitate the process of efficient price discovery
- To facilitate settlement of transactions in accordance with the predetermined time schedules.

SECURITIES MARKET

Securities Market is a place where companies can raise funds by issuing securities such as equity shares, debt securities, derivatives, mutual funds, etc. to the investors (public) and also is a place where investors can buy or sell various securities (shares, bonds, etc.). Once the shares (or securities) are issued to the public, the company is required to list the shares (or securities) on the recognized stock exchanges.



The Securities Market has two inter-dependent and inseparable segments, the new issues (primary) market and the stock (secondary) market.

Difference between Primary and Secondary market

<i>Basis for comparison</i>	<i>Primary Market</i>	<i>Secondary Market</i>
Meaning	The market place for issuing fresh securities	The market place for trading already issued securities
Objectives	To raise funds	Capital Appreciation
Scope	Includes issuance of new securities through Initial Public Offer (IPO)	Includes the further trading of securities already offered to the public
Another name	New issue market / IPO Market	After issue market / FPO Market

Purchasing of securities	Investors can purchase securities directly from the Company	Purchase and sale of securities is done by the investors among themselves
Financing	Primary market provides funds to new and old companies for their expansion and diversification	It does not provide funding to companies
Parties to transactions	Company and Investors	Investors among themselves
Major Intermediaries	Underwriters	Brokers
Price	Price as given in the offer document / red herring prospectus	Price fluctuates i.e. depends on demand and supply forces
Utilisation of fund	Fund gained from primary market becomes the capital of the company	Fund received from secondary market becomes income of investors

STOCK EXCHANGE

Stock exchange is a market place for buying and selling of securities and ensuring liquidity to them in the interest of the investors. The stock exchanges are virtually the nerve centre of the capital market and reflect the health of the country's economy as a whole.

Indian Stock Exchanges

Trading in the Indian stock market majorly takes place in the below two stock exchanges -

- BSE - Bombay Stock Exchange
- NSE - National Stock Exchange of India Limited

The Bombay Stock Exchange (BSE) has been in existence since 1875, whereas the National Stock Exchange (NSE), on the other hand, was founded in 1992 and started trading in 1994. However, both BSE and NSE exchanges follow the same trading mechanism, trading hours, settlement process, etc.

SEBI – THE CAPITAL MARKETS REGULATOR

The Securities and Exchange Board of India (SEBI) was established in 1988 through an administrative order, but the Act was passed after about four years and it became a statutory and really powerful Institution only since 1992. SEBI acts as a watchdog for all the capital market participants and its main purpose is to provide such an environment for the financial market enthusiasts that facilitate efficient and smooth working of the securities market.

SEBI ensures that the three main participants of the financial market are taken care of, i.e. issuers of securities, investor, and financial intermediaries.

- **Issuers of securities**

These are entities in the corporate field that raise funds from various sources in the market. SEBI makes sure that they get a healthy and transparent environment for their needs.

- **Investor**

Investors are the ones who keep the markets active. SEBI is responsible for maintaining an environment that is free from malpractices to restore the confidence of general public who invest their hard-earned money in the markets.

- **Financial Intermediaries**

These are the people who act as middlemen between the issuers and investors. They make the financial transactions smooth and safe.

The overall objective of the SEBI, as enshrined in the Preamble of the SEBI Act, 1992 is –

“to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto”.

OTHER CAPITAL MARKET REGULATORS ARE :

- Reserve Bank of India (RBI)
- Insurance Regulatory and Development Authority of India (IRDAI)
- Pension Fund Regulatory and Development Authority (PFRDA)

CAPITAL MARKET INSTRUMENTS

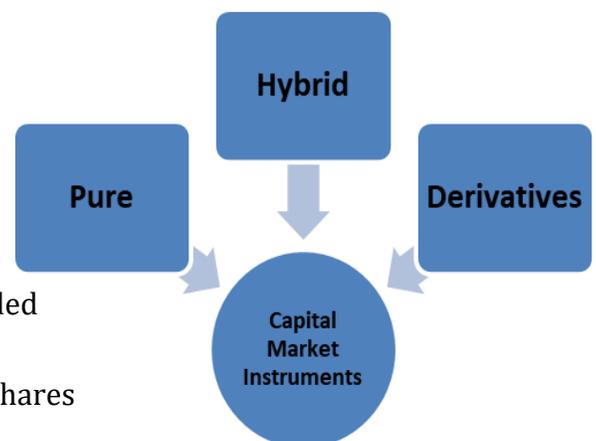
Instruments in capital markets can be classified into -

Pure Instruments: Equity shares, preference shares, debentures and bonds which are issued with the basic characteristics without mixing the features of other instruments are called pure instrument.

Hybrid Instruments: Instruments which are created by combining the features of equity, preference, bond are called as hybrid instruments.

Example: Hybrid instruments are: - Convertible preference shares

- Non-convertible debentures with equity warrant
- Partly convertible debentures
- Secured premium notes



Derivative Instrument: A derivative instrument is a financial instrument which derives its value from the value of some other financial instrument or variable. Example: Futures and Options belong to the categories of derivatives.

CAPITAL MARKET INTERMEDIARIES

Intermediaries are service providers and are an integral part of any financial system. The Market Regulator, i.e., SEBI regulates various intermediaries in the primary and secondary markets through its Regulations for these respective intermediaries. SEBI has defined the role of each of the intermediary, the eligibility criteria for granting registration, their functions and responsibilities and the code of conduct to which they are bound. These Regulations also empower SEBI to inspect the functioning of these intermediaries and to collect fees from them and to impose penalties on erring entities.

As per Section 11 of SEBI Act, it is the duty of SEBI to register and regulate the working of stock brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities market in any manner.

The capital market intermediaries are vital link between investor, issuer and regulator.

The objectives of these intermediaries are :

- to smoothen the process of investment
- to establish a link between the investors and the users of funds.
- Corporations and Governments do not market their securities directly to the investors. Instead, they hire the services of the market intermediaries to represent them to the investors.
- Investors, particularly small investors, find it difficult to make direct investment. A small investor desiring to invest may be able to diversify across issuers to reduce risk. He may not be equipped to assess and monitor the credit risk of issuers. Market intermediaries help investors to select investments by providing investment consultancy, market analysis and credit rating of investment instruments.
- In order to operate in secondary market, the investors have to transact through share brokers. Registrars and Share Transfer Agents, Custodians and Depositories Participants are capital market intermediaries that provide important infrastructure services for both primary and secondary markets.

The following market intermediaries are involved in the Securities Market :



Conclusion

The lack of an advanced and vibrant capital market can lead to underutilization of financial resources. The developed capital market also provides access to the foreign capital for domestic industry. Thus capital market definitely plays a constructive role in the over all development of an economy.

Reference:

- <https://www.taxmann.com/bookstore/bookshop/bookfiles/Capital%20samplechapter2.pdf>

News from Region

EIRC



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IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament
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**EASTERN
INDIA
REGIONAL
COUNCIL**

ANNOUNCES

CSEET

COMPANY SECRETARY
EXECUTIVE ENTRANCE TEST

5th BATCH

STARTING FROM 25TH MAY 2021

Fees: ₹ 2,000/-

REGISTRATION OPEN

Mode of Payment: Paytm

Link for online payment:

<https://paytm.com/education?src=1&q=fees>

Students are required to send their details with Transaction Id at
sumanta.dutta@icsi.edu after payment of fees.

Registered students will be provided the log in ID & password for online
classes separately by email.

For further details, please contact:

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ICSI Vision
"To be a global leader in
promoting good
corporate governance"

ICSI Motto
सत्यं वद। धर्मं चर। *Speak the truth; abide by the law*

ICSI Mission
"To develop high calibre
professionals facilitating
good corporate governance"



KEY TAKEAWAYS:

- ✓ Experienced Faculties
- ✓ Complete Subject Coverage
- ✓ Tips and Guidance for Exam
- ✓ Completion of syllabus well in advance of exam
- ✓ Mock test

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