## Unit - III

### Meaning - NIM

*Net interest margin or NIM denotes the difference between the interest income earned and the interest paid by a bank or financial institution relative to its interest-earning assets like cash.*

*NIM also known as “primary market'' is a market, which is characterized by the presence of a set of all institutions, structures, people, procedures, services, and practices involved in raising of fresh capital funds by both new and existing companies.*

### Secondary Market

*****The secondary market is defined as the place wherein the issued shares of the company are traded.*

* The secondary market can be categorized into four segments, i.e., auction market, direct search markets, dealer market, and broker market.*

*The significant examples of the secondary market include NYSE (New York Stock Exchange), NSE (National Stock Exchange), etc.*

* One of the major disadvantages of the secondary market is that the price fluctuates very often. This can sometimes lead to an immediate loss of money.*

*There are several other features associated with secondary markets that we will discuss later.*

*Now, let us discuss the fundamental contrasting points between these markets.*

***Stock Exchange Definition:***

*The securities contracts (Regulation) Act of 1956 defines a stock exchange as "an association, organization or body of individuals whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying or dealing in the securities",*

***Characteristics of Stock Exchange:***

***1. Voluntary association:***

*The stock exchanges are voluntary associations registered by certain statutory laws. These exchanges do not conduct business for themselves but provide facilities to their members to transact with the corporate securities.*

***2. Control of the Governing body:***

*The members of the exchange elect a governing body,*
*which exercises proper and adequate control over its members. The body is empowered with wide authorities and rights over the members and controls their activities directly.*

***3. Rules and regulations:***

*The members should obey the rules and regulations formulated by the stock exchange. Any member who acts against the rules of the exchange can be removed from the membership. Admission of new members is also subject to the over all control and discretion of the governing body.*

***4. Listed securities:***
*Securities enlisted in the official list of the stock exchange can alone be transacted in the exchanges. Enlisting of securities is very essential to safeguard the interests of the investors from unscrupulous brokers and dealers in the stock exchanges. The securities are enlisted only after a thorough investigation of the financial standing of the company issuing such securities. Now it is provided that every public company in India should get its shares listed.*

***Functions of a stock exchange:***

***1. Ready and continuous market for securities**:*
*The stock exchange provides and read and continuous market for existing securities. Anybody can buy or sell securities in the stock exchange during the business hours.*
***2. Evaluation of securities**:*
*The evaluation, in fact, is a continuous process and the value of The securities are determined as close as possible to their investment values based on the present and future income yielding prospects of various enterprises. This function is performed quickly at a comparatively cheaper cost. The price prevailing in the stock exchange is called market quotation.*

***3. Safety of capital and fair dealing**:*
*The stock exchange transactions are made publicly under well-defined rules and regulations and bye-laws. The members of the exchange are bound to obey the rules and regulations.*

***4. Agency for capital formation:***
*The stock exchange plays an active role in the capital formation in the country. It creates the habit of saving, investing and risk bearing amongst the investing public. Industrial investments are stimulated in preference from the unproductive investments in land, gold etc.,*

***5. Proper canalisation of capital**:*
*Stock exchange directs the flow of savings into the most productive and profitable channels. If the securities of a company are being sold above par i.e., above the face value, it is an indication that the company has good prospects. Since market quotations for different securities are given wide publicity, the investors can invest their savings in the securities of profitable companies and reap a good harvest in the form of dividend.*

***6. Regulation of company management:***
*The companies, which want to get their*
*securities listed in the stock exchange, should have to follow certain rules and fulfill certain conditions. Such companies should also furnish all reasonable informations concerning the financial affairs of them every year*

.

***7. Facilities for speculation****:*
*Healthy speculation is essential to equate demand and supply*
*of securities at different places. Besides, it also regulates the prices of securities considerably.*

***8. Barometer of business progress:*** *Stock exchanges act as a barometer of the business conditions in the country. Booms and depressions are reflected by the index of prices of various securities maintained by the stock exchange.*

***Services of Stock Exchange:***
*Services to investors*
*1.The investors are assured of a ready and continuous market for the securities held by them. Hence, they can realize the securities in times of need.*
*2.Listed securities can be given to the bankers as a security for the loans. Since the stock market*
*provides negotiability to the securities, bankers will also accept them as a good security for advance.*
*3.The investors can easily ascertain the value of the securities held by them. They can also find out the variations in their value from the market quotation published by the stock exchange either daily or periodically*

**NIM vs secondary market:**

***** *The primary market is where securities are created, while the secondary market is where those securities are traded by investors.*
** In the primary market, companies sell new stocks and bonds to the public for the first time, such as with an initial public offering (IPO).*
** A primary market is defined as the market in which securities are created for first-time investors.*
** On the other hand, the secondary market is defined as a place where the issued shares are traded among investors.*
** The buying and selling of shares takes place among the investors and the companies.*

***NIM and Secondary Market - An Interface:***

*Both the primary and secondary markets are closely interrelated. This is clear from the follow capitalized, For the purpose of securities to be traded in the secondary market, it is important that they are first issued in the primary market.*

***Listing*** *:*
*In order that a corporate entity makes a successful issue of security in the primary market, it is incumbent that the terms of such an issue carry a stipulation that the issues are to be listed in a recognized stock exchange and that an application for this purpose has been made already to the stock exchange concerned.*

***Regulation :***

*The activities in the primary market such as the new issues, etc are greatly influenced by the regulatory norms prescribed by the SEBI and stock exchanges. The object is to bring about orderliness in the new issues market.*

***Marketability:***

*The advantage of marketability provided by the secondary market greatly helps the subscribers in the primary market. For instance, the positive trends prevailing in the secondary market immensely help the investors to off-load their existing holdings so as to subscribe for fresh issues in the NIM.*

***Right issue method:***

*Where the shares of an existing company are offered to its existing shareholders, it takes the form of 'rights issue". Under this method, the existing company issues shares to its existing shareholders in proportion to the number of shares already held by them.*

***What is a Rights Issue?***
*A rights issue is an offering of rights to the existing shareholders of a company that gives them an opportunity to buy additional shares directly from the company at a discounted price rather than buying them in the secondary market. The number of additional shares that can be bought depends on the existing holdings of the shareowners.*

***Features of a Rights Issue***
*Companies undertake a rights issue when they need cash for various objectives. The process enables the company to raise money without incurring underwriting fees.*
*A rights issue gives preferential treatment to existing shareholders, where they are given the right (not obligation) to purchase shares at a lower price on or before a specified date.*
*Existing shareholders also enjoy the right to trade with other interested market participants until the date at which the new shares can be purchased. The rights are traded in a similar way as normal equity shares.*
*The number of additional shares that can be purchased by the shareholders is usually in proportion to their existing shareholding.*
*Existing shareholders can also choose to ignore the rights;*

**Important characteristics of rights issue are:**

*1) The number of shares offered on the rights basis to each existing shareholder is determined >by the issuing company. The entitlement of the existing shareholder is determined on the basis of existing shareholding. For example one Rights share may be offered for every 2 or 3 shares held by the shareholder.*
*2) The issue price per Rights share is left to the discretion of the company.*
*3) Rights are negotiable. The holder of rights can transfer these rights shares to any other person, i.e. he can renounce his right to subscribe to these shares in favor of any other ' person, who can apply to the company for the allotment of these shares in his name.*
*4) Rights can be exercised during a fixed period, which is usually 30 days. If it is not exercised within this period, it auto~idiotically lapses.*

***Intermediaries in New Issue market:***
*The new issue market / activity was regulated by the Controller of Capital Issues (CCI) under the provisions of the Capital Issues (Control) Act, 1947 and the exemption orders and rules made under it. With the repeal of the Act and the consequent abolition of the office of the CCI in 1992, the protection of the interest of the investors in the securities market and promotion of the development and regulation of the market/ activity became the responsibility of the SEB*

*. **The relevant guidelines issued by the SEBI in this regard are as follows:***

*1. Shall be issued only by listed companies.*
*2. Announcement regarding rights issue once made, shall not be withdrawn and where withdrawn, no security shall be eligible for listing upto 12 months.*
*3. Underwriting as to rights issue is optional and appointment of Registrar is compulsory.*
*4.Appointment of category I Merchant Bankers holding a certificate of registration issued by*
*SEBI shall be compulsory.*
*5. Rights shares shall be issued only in respect of fully paid shares.*
*6.Letter of offer shall contain disclosure as per SEBI requirements*
*7.A minimum subscription of 90 percent of the issue shall be received*

***Bonds issue***

*Where the accumulated reserves and surplus of profits of a company are converted into paid up capital, it takes the form of issue of "bonus shares'. It merely implies capitalization of existing reserves and surplus of a company. The issue of bonus shares is subject to certain rules and regulations. The issue does not in any*
*ways affect the resources base of the enterprise. It saves the company enormously of the hassles of capital issues.*

**SEBI Guidelines on primary market**

**SEBI Guidelines for Primary Market*
*New Company Set up by Existing Company:*
*Any old company with a good track record in terms of profit for at least 5 years if promoting any new company, then the new company is allowed to price its issue.*

- *A company is required to complete the allotment of securities offered to the public within 30 days of the date of closure of the subscription list and approach the designated stock exchange for approval of the basis of allotment.*
- *Issuer company to complete the formalities for trading at all the stock exchanges where the securities are to be listed within 7 working days of finalization of the basis of allotment.*
- *o Companies making public/rights issues are required to deposit 1 % of the issue amount with the designated stock exchange before the issue price.*

***Delisting***

*As stated above, delisting of securities means removal of the securities of a listed company from the stock exchange. It may happen either when the company does not comply with the guidelines of the stock exchange, or that the company has not witnessed trading for years, or that it voluntarily wants to get delisted or in case of merger or acquisition of a company with/by some other company. So, broadly it can be classified under two head:*
*1. Compulsory delisting.*
*2. Voluntary delisting.*

***SEBI Guidelines***

*Following are the guidelines pertaining to the issue of bonus shares by a listed corporate enterprise:*
*1. Reservation In respect of FCDs and PCDs, bonus shares must be reserved in proportion to such as the convertible part of FCDs and PCDs. The shares so reserved may be issued at the time of*
*conversion(s) of such debentures on the same terms on which the bonus issues were made.*

*2. Reserves The bonus issue shall be made out of free reserves built out of the genuine profits or share premium collected in cash only. Reserves created by revaluation of fixed assets are not capitalized.*

*3. Dividend mode The declaration of bonus issue, in lieu of dividend, is not made.*

*4. Fully paid The bonus issue is not made unless the partly paid shares, if any are made fully paid-up.*

*5. No default The company has not defaulted in payment of interest or principal in respect of fixed deposits*
*and interest on existing debentures or principal on redemption thereof and has sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity, bonus, etc..*

*6. Implementation A company that announces its bonus issue after the approval of the Board of Directors must implement the proposal within a period of 6 months from the date of such approval and shall not have the option of changing the decision.*

*7. The articles The Articles of Association of the company shall contain a provision for capitalization of reserves, etc. If there is no such provision in the Articles, the company shall pass a resolution at its general body meeting making provisions in the Articles of Associations for capitalization.*

**Listing**

- *In case a new issue of shares is made under any scheme, shares so issued shall be listed intermediate in any recognised stock exchange.*
- *Scheme easier compliance with these regulations*
- *AStatement specified by the SEBI in this regard, is failed and the company has approval from the stock exchange.*
- *As and when an exercise is made, the company notified the concerned stock exchange as per the statement as specified by the SEBI in this regard.*
- *The sweat equity issued by the listed company shall be eligible for listing only if issued or in accordance with their regulations.*

***Listing***
*Listing means admission of securities to dealings on a recognized stock exchange. The securities may be of any public limited company, Central or State Government, quasi governmental and other financial institutions/corporations, municipalities, etc.*

***Advantages of Listing Security .***
*transactions are conducted in an open and transparent manner subject to a well defined code of conduct*

***The important advantages of listing are listed below***

***Fundraising and exit route to investors***
*Listing provides an opportunity to the corporates / entrepreneurs to raise capital to fund new projects/undertake expansions/diversifications and for acquisitions. Listing also provides an exit route to private equity investors as well as liquidity to the ESOP-holding employees.*

***Ready Marketability of Security***
*Listing brings in liquidity and ready marketability of securities on a continuous basis adding prestige and importance to listed companies.*
***Ability to raise further capital***
*An initial listing increases a company's ability to raise further capital through various routes like preferential issue, rights issue, Qualified Institutional Placements and ADRs/GDRs/FCCBs, and in the process attract a wide and varied body of institutional and professional investors.*
***Supervision and Control of Trading in Securities***
*The transactions in listed securities are required to be carried uniformly as per the rules and bye-laws of the exchange. All transactions in securities are monitored by the regulatory mechanisms of the stock exchange, preventing unfair trade practices. It improves the confidence of small investors and protects them.*
***Fair Price for the Securities***
*The prices are publicly arrived at on the basis of demand and supply; the stock exchange quotations are generally reflective of the real value of the security. Thus listing helps generate an independent valuation of the company by the market.*
***Timely Disclosure of Corporate Information***
*The listing agreement signed with the exchange provides for timely dis¬closure of information relating to dividend, bonus and right issues, book closure, facilities for transfer, company related information etc by the company. Thus providing more transparency and building investor confidence.*
***Collateral Value of Securities***
*Listed securities are acceptable to lenders as collateral for credit facilities. A listed company can also borrow from financial institutions easily as it is rated favorably by lenders of capital; the company can also raise additional funds from the public through the new issue market with a greater degree of assurance.*
***Better Corporate Practice***
*Since the violation of the listing agreement entails the delisting/suspension of securities from the rings of the exchange, the listed companies are expected to follow fair practices to the advantage of investors and public.*
***Benefits to the Public***
*The data daily culled out by the stock exchange in the form of price quotations and others; provide valuable information to the public which can be used for project and research studies. The stock exchange prices can be an index of the state of the*

*economy. Financial institutions, NRl, individual investor’s etc. can take wise decisions before making investments.*
***Subdivision and Consolidation of Holdings***
*Stock exchange bye-laws provide for explicit rules for subdivision and consolidation of securities as desired by the investors. There are special trading sessions in the exchange for conversion of odd lots into market lots arranged by financial and institutional investors. Thus listing helps to provide flexibility to investors in the subdivision and consolidation of their holdings with speed and earnestness.*

***Benefits of Listing***
*Listing provides an exclusive privilege to securities in the stock ex¬change. Only listed shares are quoted on the stock exchange. Stock exchange facilitates transparency in transactions of listed securities in perfect equality and competitive conditions. Listing is beneficial to the company, to the investor, and to the public at large.*

***The objectives of listing are mainly to:***

*# provide liquidity to securities;*
*# mobilize savings for economic development;*
*# protect the interest of investors by ensuring full disclosures.*

*A company, desirous of listing its securities on the Exchange, shall be required to file an application, in the prescribed form, with the Exchange before issue of Prospectus by the company, where the securities are issued by way of a prospectus or before issue of 'Offer for Sale', where the securities are issued by way of an offer for sale.*
*Delisting of securities means permanent removal of securities of a listed company from the stock exchange where it was registered. As a result of this, the company would no longer be traded at that stock* exchange.

***Rules and guidelines for listing of securities:***

*Securities Contract (Regulation) Act, 1956.*
*S. 21. of the Act deals with the listing of the public companies.*

*Securities Contract (Regulation) Rules 1957.*
*S. 19 of the Act deals with the requirements and documents to be submitted with respect to the listing of securities on a recognized stock exchange and i.e.*
*a) Memorandum and articles of association and, in case of a debenture issue, a copy of the trust deed.*
*b) Copies of all prospectuses or statements in lieu of prospectuses issued by the company at any time.*
*c) Copies of offers for sale and circulars or advertisements offering any securities for subscription or sale during the last five years.*

*d) Copies of balance sheets and audited accounts for the last five years, or in the case of new companies, for such a shorter period for which accounts have been made up.*
*e) A statement showing-*
*(i) Dividends and cash bonuses, if any, paid during the last ten years (or such shorter period as the company has been in existence, whether as a private or public company).*
*(ii) Dividends or interest in arrears, if any.*
*f) Certified copies of agreements or other documents relating to arrangements with or between:-*
*(i) Vendors and/or promoters,*
*(ii) Underwriters and sub-underwriters,*
*(iii) Brokers and sub-brokers.*
*g) Certified copies of agreements with-*
*(i) Managing agents and secretaries and treasurers,*
*(ii) Selling agents,*
*(iii) Managing directors and technical directors,*
*(iv) General manager, sales manager, manager or secretary.*
*h) Certified copy of every letter, report, balance sheet, valuation contract, court order or other document, part of which is reproduced or referred to in any prospectus, offer for sale, circular or advertisement offering securities for subscription or sale, during the last five years.*

**Agreement:**

*An agreement which has to be entered into by companies when they seek listing for these shares on a stock exchange.*

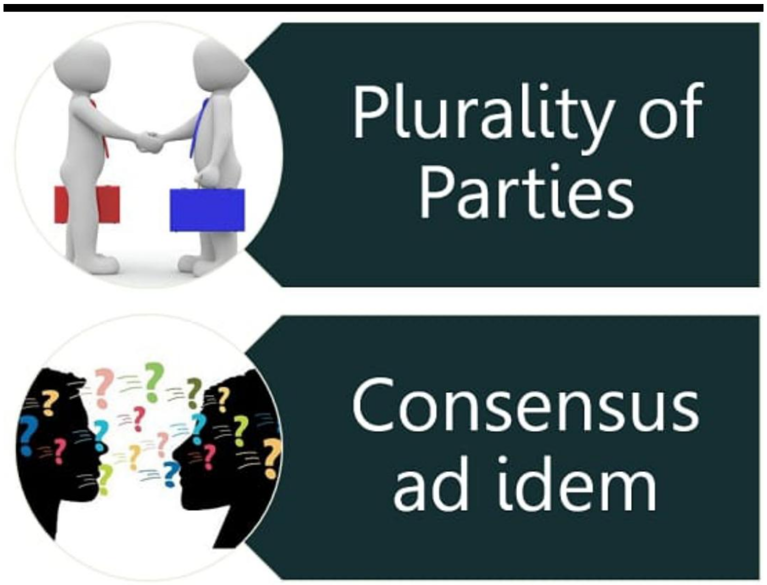
*companies are called upon to keep the stock exchange fully informed of all corporate developments having a bearing on the market price of shares like dividend ,rights,bones shares, etc.*

**Agreement on objectives:**

*The agreement on objectives is an agreement concerning the goals to be achieved by the employee. It is a motivational technique and standardly used in field service and in project work, but also in other areas. Besides trade and industry, it is also increasingly used in public administration.*

***Characteristics of Agreement***

*The main characteristics of the agreement are discussed below:*




***Plurality of Persons:*** *To constitute an agreement, at least two persons should be there, as one person cannot make an agreement with himself/herself.*
***Consensus ad idem:*** *It is a Latin term, which implies "Concurrence of Minds", i.e. when in an agreement there is a common understanding between the parties with respect to the terms and conditions of the agreement.*
*This means that the parties to the agreement must agree upon the same thing in the same sense, as it was intended, with respect to their corresponding rights and duties, concerning the performance of promises in the past or future.*

**. Objectives of the agreement**

1. *This Agreement is designed to assist the University to achieve the goals of the ANU Strategic Plan 2017-2021 and its successors. This Plan aims to build on the distinctive excellence of ANU both as Australia's national university and Australia's finest university.*

2. *As part of achieving its goals the University makes the following commitments: Through the relentless pursuit of excellence, The Australian National University will remain one of the world's top universities. To achieve this goal the University will work cooperatively with its staff. A policy which is developed and has an impact on employment conditions*

*of those staff members covered by this Agreement will be subject to consultation with the University community and relevant unions.*

3. *The University will work towards an environment that is:*

- *supportive, nurturing, challenging, and motivating for staff and students;exemplary in its encouragement of excellence, equity and tolerance and the creation of a constructively analytical culture;*
- *supportive of staff who are to be respected, talent is nurtured and supported, and staff enjoy a safe and engaging work environment; and*
- *encouraging of a genuinely collegial University, within which problems are shared and worked on collectively, and also within which staff members are encouraged to comment on the University's operations.*

4. *The parties agree to participate in ongoing reviews of existing practices to achieve the objectives of the University Strategic Plan. The managing change provisions of this Agreement will be used to progress any initiatives developed under any such reviews.*

**Benefits**

*Benefit Agreement means (i) any employment, deferred compensation, consulting, severance, change of control, termination, retention, indemnification, loan or similar agreement between the Company or any of its Subsidiaries, on the one hand, and any Participant, on the other hand, or (ii) any agreement between the Company or any of its Subsidiaries, on the one hand, and any Participant, on the other hand, the benefits of which are contingent, or the terms of which are materially altered, upon the occurrence of a transaction involving the Company of a nature contemplated by this Agreement.*

*Examples of Benefit Agreement in a sentence The individual Employer hereby accepts, and agrees to be bound by, the Restated Employees Benefit Agreement and Trust. The failure of an individual employer to comply with the applicable provisions of the Restated Employees Benefit Agreement and Trust shall also constitute a breach of this labor agreement. The individual employer hereby accepts, and agrees to be bound by, the Restated Employees Benefit Agreement and Trust. The failure of an individual Employer to comply with the applicable provisions of the Restated Employees Benefit Agreement and Trust shall also constitute a breach of this Agreement.*

- *Clarity in business relationships,agreements, and rights of parties.*

- *Avoiding potential contract disputes and litigation.*
- *Preventing misinterpretation of communications and agreements.*

- *Protecting intellectual property, real property, and asset value.*

**Consequences of non- listing .**

*In case the company has not applied for listing or the one or more recognized stock exchanges have not granted permission before the expiry of ten weeks from the date of closure of subscription list, then the following consequences follow:*

**subject themselves to various regulatory measures of SEBI and stock exchanges;*

**submit required books, documents and papers and disclose any other information which the stock exchange ask for;*

** send to all shareholders the notices of Annual General Meetings, Annual Reports, etc.; place its securities with the public.*

***What are the consequent non- listing***

*Consequences of Non Listing of Securities - Security Analysis and Investment Management*
*subject themselves to various regulatory measures of SEBI and stock exchanges;*
*submit required books, documents and papers and disclose any other information which the stock exchange ask for;*