INDIAN FINANCIAL MARKET

Financial Market

The financial market provides a place where or a system through , which transfer of funds by investors/lenders to the buisness units is adequately facilitated . Money always flows from surplus sectors to deficit sectors. In business sectors the surplus money flows from the investors or lenders to the businessmen for the purpose of production or sale of goods and services hence we get two different groups one who invests money and the others, who borrow or use money. In the financial market there are two types of credit instruments and they are bill of exchange and a promissory note. The financial market consists or certain functions : (a) It provides facilities for interactions between the investors and the borrowers. (b) It provides pricing information resulting from the interaction between buyers and sellers in the market when they trade the financial assets. (c) It provides security to dealings in financial assets. (d) It ensures liquidity by providing a mechanism for an investor to sell the financial assets. (e) It ensures low cost of transactions and information. There are two types of financial market , they are money market and capital market. The money market is a market for short term funds , which deals in financial assets whose periods of maturity is upto one year. Money market does not deal in cash or money as such but simply provides a market for credit instruments. The types of money market instruments are call money , treasury bill , commercial paper , certificate of deposit and trade bill . Capital market may be defines as market dealing In medium and long term funds. It is an institutional arrangement for borrowing medium and long term funds and which provides facilities for marketing and trading of securities. It consists of two segments namely primary and secondary market . Primary market consists of arrangements which facilitates the procurement of long term funds by companies by making fresh issue of shares and debentures, the companies have to follow a well established legal procedure and involve a number of intermediaries such as underwriters, brokers etc .The secondary market known as stock market or stocks exchange plays an equally important role In mobilizing long term funds by providing the necessary liquidities to holdings in shares and debentures.

Stock Exchange

Stock exchange is the term commonly used for a secondary market, which provide aplace where different types of existing securities such as shares , debentures and bonds , government securities can be bought and sold on a regular basis . The securities contract act has defined stock exchange as an association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business of buying, selling and dealing in securities. The main characters of stock exchange are : (1) it is an organized market . (2) It provides a place where existing and approved securities can be bought and sold easily. (3) In a stock exchange, transactions take place between its members or its authorized agents. (4) all transactions are regulated by the rules and by the laws of the concerned stock exchange . (5) It makes complete information available to public in regard to prices and volume of transaction taking place every day. The functions of a stock exchange are (a) Provides ready and continuous market (b) Provides information about prices and sales. (c) Provides safety to dealing and investment . (d) helps in mobilization of savings and capital formation (e) Barometer of economic and business conditions (f) Better allocation of funds. The advantages of stock exchanges outlines by the view of companies , investors and society . The advantages for companies are : (1) The companies whose securities have been listed on a stock exchange enjoy a better goodwill and credit standing than other companies because they are supposed to be financially sound (2) The market for their securities is enlarged as the investors all over the world become aware of such securities and have an opportunity to invest. The advantages for the investors are : (1) the investors enjoy the ready availability of facility and convenience of buying and selling the securities at will and at an opportune time. (2) Availability of regular information on prices of securities traded at the stock exchanges helps them in deciding on the timing of their purchase and sale . The advantages of stock exchange for the society (1) The availability of lucrative avenues of investments and the liquidity there of induces people to save and invest in long term securities. This leads to increased capital formation in the countr. (2) The facility for convenient purchase and sale of securities at the stock exchange provide support to new issue market. This helps in promotion and expansion of industrial activity, which in turn contributes, to increase in the rate of industrial growth. There are certain limitations in stock exchange, one of the common evil associated with stock exchange operations is the excessive speculation. Speculation implies buying and selling securities to take advantage of price differential at different times .Speculations is considered a healthy practice and is necessary for successful operation of stock exchange activity. Another short coming of stock exchange operation is that security prices may fluctuate due to unpredictable political, social and economic factors as well as on account of rumours spread by interested parties. The buyers and the sellers at the stock exchange undertake two types of operations one for speculation and the other for investment. Those who buy securities primarily to earn a regular income from such investment and possibly make some long term gain on account of price rise in future are called investors. Speculation transactions are those when the securities are bought with the sole object of selling them in the future at a higher price or the same are sold now with the intention of buying at a lower price in the future. The first stock exchange in India was started in Mumbai known as Bombay Stock Exchange , it was followed by the Ahmadabad Stock Exchange and Kolkata Stock Exchange . At present India has 23 stock exchanges in the country, one of the most prominent that had come up is the national stock exchange Another stock exchange that needs a mention is the Over The Counter Exchange Of India .It was promoted by the financial institutions like UTI, ICICI, IDBI etc In September 1992 specially to cater to small and medium sized companies with equity capital of more than Rs.30 lakhs or less than Rs.25 crores. Regulations of stock exchange were passed such as Securities Contract Act which provided for recognition of stock exchange by the central government and the Securities regulations which provided inter alia for the procedures to be followed for recognition of the stock exchanges, submission of returns by recognized stock, submission of periodical returns and annual returns by recognized stock exchanges, inquiry into the affairs of recognized stock exchanges and their members, and requirements for listing of securities.

SEBI

The government of India initiated several market reforms, granting statutory recognition to securities exchange board of India. The SEBI perform certain roles such as :(a) protecting the interest of investors in securities. (b) Promoting the development of securities market (c) regulating the securities market and matters connected there with or incidental thereto. The SEBI have various powers concerning aspects of capital market such as: (i) regulate the business in stock exchanges and any other securities market. (ii) registering and regulating the working of various intermediaries and mutual funds. (iii) promoting and regulating self regulatory organizations. (iv) Promoting investors education and training of intermediaries. (v) Prohibiting insider trading and unfair trade practices. (vi) Regulating substantial acquisition of shares and takeover of companies. (vii) Calling for information, undertaking inspection, conducting inquiries and audit of stock exchanges, and intermediaries and self regulation organizations in the stock market. (viii) Performing such functions and exercising such powers under the provisions of the Capital Issues Act 1947 and the Securities Contracts Act, 1956 as may be delegated to it by the the Central Government. SEBI has initiated many primary market reforms, which include improved disclosure standards in public issue documents, introduction of prudential norms and simplification of issue procedures. Companies are now required to disclose all material facts and risk factors associated with their projects while making public issue. As for measures in the secondary market, it should be noted that all statutory powers to regulate stock exchanges under the Securities Contracts (Regulation) Act have now been vested with SEBI through the passage of securities law (Amendment) Act in 1995. SEBI has duly notified rules and a code of conduct to regulate the activities of intermediaries in the securities market and then registration in the securities market and then registration with SEBI is made compulsory. It has issued guidelines for composition of the governing bodies of stock exchanges so as to include more public representatives. Corporate Membership has been introduced at the stock exchanges

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