

Securities

2.1 What is meant by 'Securities'?

⇒ Defined under Securities Contracts Act, 1956 (SCRA)

⇒ Includes a wide range of marketable financial instruments, such as

→ Shares, scrips, stocks, bonds, debentures

→ Derivatives

→ Units of collective investment schemes

→ Security receipts (as per SARFAESI Act, 2002)

→ Mutual fund units

→ Government securities

→ Any other instruments declared by the Central Government

→ Rights or interests in securities

2.1.1 Function of the Security market

⇒ Platform for buying/selling securities

⇒ Facilitates capital raising for corporates and entrepreneurs

⇒ Transfer resources from investors to users (businesses).

⇒ Connects savings to investments through intermediaries

⇒ Promotes efficient reallocation of savings to investments and entrepreneurship

2.1.2 Types of securities for Investment

- ⇒ Shares
- ⇒ Bonds & debentures
- ⇒ Government securities
- ⇒ Derivatives
- ⇒ Mutual Fund Units

2.2 Regulator

2.2.1 Why regulators are needed

- ⇒ Market is not perfectly competitive
- Risk of unfair practices
- ⇒ Regulator ensures
 - Fair behaviour of participants
 - Protects investors' interests
 - Security market remains a reliable source of finance

2.2.2 Who regulates the security market

Regulation shared among:

- ⇒ Department of Economic Affairs (DEA)
- ⇒ Department of Company Affairs (DCA)
- ⇒ Reserve Bank of India (RBI)
- ⇒ Securities and Exchange Board of India (SEBI)

2.23 SEBI - Role and Function

⇒ Established under Section 3, SEBI Act, 1992

⇒ Objectives:

→ Promotes investors interests

→ Promotes development of securities market

→ Regulate securities market

⇒ Jurisdiction: Corporates issuing/transferring securities, intermediaries and other market participants

Key Powers / Functions

⇒ Regulate stock exchanges and securities market

⇒ Register and regulate brokers, sub-broker and intermediaries

⇒ Promote and regulate self-regulatory organization (SRO)

⇒ Prohibit fraudulent / unfair trade practices and insider trading

⇒ Promote investor education and training

⇒ Regulate substantial acquisition of shares and take over of companies

⇒ Conduct inspections, inquiries, audits of exchanges and intermediaries

2.3 Participants

2.3.1 Key Participants

- ⇒ Issuers - Corporates and government raising capitals
- ⇒ Investors - Individuals, institutions investing savings
- ⇒ Intermediaries - Facilitate transactions
 - Merchant brokers
 - Brokers
 - Depository participants
 - Registered investment advisors
 - Mutual Fund distributors

2.3.2 Need for intermediaries

- ⇒ Advisable and often mandatory to transact through registered intermediaries
- ⇒ Trading members - for buying/selling on stock exchanges (mandatory by SCRA)
- ⇒ Depository accounts - for holding securities in demat form
- ⇒ Bankers to issues - for subscribing to public issues
- ⇒ Advisory and guidance - provided by intermediaries
- ⇒ Choose SEBI registered intermediaries (list available in SEBI website)

2.3.3 Segments of Securities Market

⇒ Primary Market - New issue of securities

⇒ Secondary Market - Trading of already issued / listed securities.

(MVI) Market Value Index
(PI) Price Index
(OT) Offer to Buy
Investment through

→ Prospective

→ Rights issue

→ Private placement

→ Securities may be varied:

→ At face value, premium or discount

→ Domestic or international market

→ Nominal value assigned by issuer
(10, 25, 50, 100)
→ Bonds: report at face value (usually 100)

→ Market price & issue price (depend on market forces)