

## Investment 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)

## 2.2.3 SEBI - Role and Functions

⇒ 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-brokers 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

(iii) Stock market & Bourses

(iv) Over-the-counter market

(v) Bond market

Government securities market

Corporate bonds

Equity shares

Financial derivatives

Based on new issues

Based on mergers, etc. of firms

Based on taxation or interest rates

Based on foreign exchange market

Based on services sector limited

(vi), (vii), (viii) Based on Government

(ix) Based on large amount

(x) Based on small & new companies

(xi) Bonds