

# 23

## METHODS OF RAISING FUND FROM THE CAPITAL MARKET

### Objective

At the end of this chapter, students should be able to understand how to raise fund from the capital market.

### 23.1 Introduction

In the capital markets, funds are raised to enable the activities of the capital market to flow according to the rules and regulations.

### 23.2 Raising Capital

The methods by which capitals are raised in the capital market includes;

1. Offer for sale
2. Offer for subscription
3. Right issue
4. Private placement

**1. Offer for Sale:** The whole issue of shares is allotted to an issuing house (Merchant bank, finance house) which offers them to the public by means of document known as "Offer for Sale".

**2. Subscription:** It is an arrangement by which a member of the public applies for and buys shares of companies from stock exchange market.

**3. Right Issue:** When a company is established, it may raise further capital by offering the shares concerned to existing members on favourable terms.

**4. Private Placement:** This is the method of issuing securities through an intermediary such as; a firm stock broker. This intermediary will endeavour to place the issue among its institutional investors.

### 23.3 Summary

In this chapter, students have learnt that:

1. Raising capital fund for the capital market involves offer for subscription, right issue and private placement.
2. Subscription serves as an arrangement by which members of the public apply for shares while offer for the sale shows the shares as allied to an issuing house for the public.

### 23.4 Revision Questions

1. List four methods of raising fund for the capital market.
2. Explain two of the methods mentioned above.