Navigating the Dynamics: The Functioning of Securities Market in India

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Preface

The degree of protection provided to minority investors by the law has a significant impact on the depth and quality of the securities markets within a particular country. Corporate governance standards, shareholder rights enforcement, and disclosure and transparency laws are some of the instruments used to safeguard investors. Regulatory bodies that are authorised to define substantive norms of engagement and enforce them by imposing punishment on non-compliant parties carry out the duty of securities regulator in numerous jurisdictions, including India. Because the nation's securities regulator—which is both highly qualified in its field and meant to be independent—implores such a regulatory apparatus to be flexible and adaptable.

The multitude of different investments, such as stocks, bonds, investment contracts, notes, and derivatives are well explained in the different chapters.

This book's primary goals are to increase knowledge among academics, students, and the legal community at general. It also aims to give researchers and scholars a platform for innovative research and multi-level analysis of larger legal insight-related topics from both national and multidisciplinary perspectives. Over the months, it has evolved into a picture of the numerous efforts made. The purpose of this book is to promote better awareness, communication, and integration among all of us.

Happy reading!

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Chapter 1
INTRODUCTION

Introduction

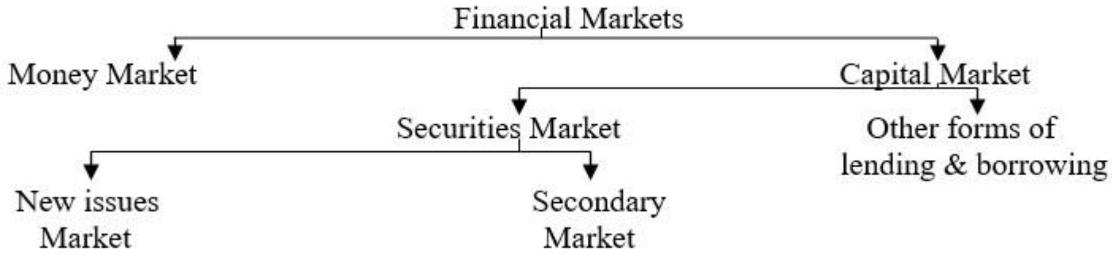
Every modern economy is based on a sound financing system which helps in production, capital and economic growth by encouraging saving habits, mobilizing savings from households and other segments and allocating savings into productive usage such as trade, commerce, manufacture etc.

Financial system covers both credit and cash transactions. All financial transactions are dealt with by cash payment or issue of negotiable instruments like cheque, bill of exchange, hundies etc. Thus a financial system is a set of institutional arrangements through which financial surpluses are mobilized from the units generating surplus income and transferring them to others in need of them. The activities include production, distribution, exchange and holding of financial assets/instruments of different kinds by financial institutions, banks and other intermediaries of the market. In a nutshell, financial market, financial assets, financial services and financial institutions constitute the financial system.

Financial Market

Financial market helps in achieving, efficient transfer of resources from those having idle resources to others who have a pressing need for them. Stated formally, financial markets provide channels for allocation of savings to investment. These provide a variety of assets to the savers as well as various forms in which investors can raise funds and thereby decouple the acts of saving and investment. The savers and investors are constrained by the economy's ability, to invest and save respectively and not by their individual abilities. The financial markets, thus contribute to economic development to the extent that the latter depends on the rates of savings and investment.

The financial markets have two major components; the money market and the capital market.



Money market

The money market refers to the market where borrowers and lenders exchange short term funds to solve their liquidity needs. Money market instruments are generally financial claims that have low default risk, maturities under one year and high marketability.

Capital market

The market for financial investments that are direct or indirect claims to capital is capital market. It is wider than the securities market and embraces all forms of lending and borrowing, whether or not evidenced by the creation of a negotiable financial instrument. The complex of institutions and mechanism through which intermediate term funds and long term funds are pooled and made available to business, government and individuals is called capital market. The Capital Market also encompasses the process by which securities already outstanding are transferred. The capital market and in particular the stock exchange is referred to as the barometer of the economy.

Securities market

The securities market refers to the market for those financial instruments/claims/obligations that are commonly and readily transferable by sale. There are two inter-dependent and inseparable segments of securities market, the new issues (primary) and the stock (secondary) market.

The primary market provides the channel for sale of new securities, while the secondary market deals in securities previously issued. The issuer of securities sells the securities in the primary market to raise funds for investment and/or to discharge some obligation. In response to changes in their assessment of risk and return the secondary market enables those who hold securities to adjust their holdings. Secondary market essentially comprises of stock exchanges which provide platform for purchase and sale of securities by investors. The secondary market ensures free marketability, negotiability and price discharge. For these reasons the stock market is referred to as the nerve centre of the capital market.

The capital market consists of a series of channels through which the savings of the community are made available for industrial and commercial enterprises and for public.[1] It embraces not only the system by which the public takes up long term security directly or through intermediaries but also the elaborate network of institutions responsible for short term and medium term lending. But there is difference between capital market and money market. In money market, dealings take place for short term funds, whereas in case of capital market, long term securities are traded to meet the long term requirements. The distinction between the money and the capital market to based on the difference in the period of maturity of financial assets, which is arbitrary, but one year dividing point in this regard is mostly accepted in the financial markets. …………………………………………………………...
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[1] S.C.Kuchhal; Corporation Finance: Principles and Problems, Allahabad, Chaitanya Publishing House, 1932, P.302.

Meet the Author!

Dr. Paras Chaudhary, a former Law Officer in Haryana Government and a former Assistant Professor (Law) in SRM University has authored this book. The Author has done B.A.LL.B. (Hons.) from Institute of Law, Kurukshetra University, Kurukshetra, Haryana. Thereupon he completed his LL.M. from University School of Law and Legal Studies, Guru Gobind Singh Indraprastha University, Dwarka, New Delhi. While pursuing his LL.M. he appeared for UGC NET and cleared it in the very first attempt. Having a taste for research and academics made it sure that he will not stop here. There upon he did his Ph.D. from Faculty of Law, Delhi University, New Delhi in Constitutional law. But being one of the core areas of interests, the author wrote his first and present book on securities law.

The author also qualified various stages of judicial service examination which contributed to have a deep sense of knowledge about law. Moreover he worked under the aegis of Additional Advocate General, Haryana for a year and this gave him a nuanced understanding about the practical aspects in the field of legal practice. Having experience of work in both private and government sector also helped in cultivating skills to produce this master piece.

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