

Chapter–2: Securities

Securities

The definition of ‘Securities’ as per the Securities Contracts Regulation Act (SCRA), 1956, includes instruments such as shares, bonds, scrips, stocks or other marketable securities of similar nature in or of any incorporate company or body corporate, government securities, derivatives of securities, units of collective investment scheme, interest and rights in securities, security receipt or any other instruments so declared by the Central Government.

Function of Securities Market

Securities Markets is a place where buyers and sellers of securities can enter into transactions to purchase and sell shares, bonds, debentures etc. Further, it performs an important role of enabling corporates, entrepreneurs to raise resources for their companies and business ventures through public issues. Transfer of resources from those having idle resources (investors) to others who have a need for them (corporates) is most efficiently achieved through the securities market. Stated formally, securities markets provide channels for reallocation of savings to investments and entrepreneurship. Savings are linked to investments by a variety of intermediaries, through a range of financial products, called ‘Securities’.

Types of Securities

- ➔ Shares
- ➔ Government Securities
- ➔ Derivative products
- ➔ Units of Mutual Funds etc., are some of the securities, investors in the securities market can invest in.

2.1 Regulator

Need for Regulators

The absence of conditions of perfect competition in the securities market makes the role of the Regulator extremely important. The regulator ensures that the market participants behave in a desired manner so that securities market continues to be a major source of finance for corporate and government and the interest of investors are protected.

Types of Regulators

The responsibility for regulating the securities market is shared by Department of Economic Affairs (DEA), Department of Company Affairs (DCA), Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI).

SEBI and its Role

The Securities and Exchange Board of India (SEBI) is the regulatory authority in India





established under Section 3 of SEBI Act, 1992. SEBI Act, 1992 provides for establishment of Securities and Exchange Board of India (SEBI) with statutory powers for (a) protecting the interests of investors in securities (b) promoting the development of the securities market and (c) regulating the securities market. Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market. SEBI has been obligated to perform the aforesaid functions by such measures as it thinks fit. In particular, it has powers for:

- ➔ Regulating the business in stock exchanges and any other securities markets.
- ➔ Registering and regulating the working of stock brokers, sub-brokers etc.
- ➔ Promoting and regulating self-regulatory organizations.
- ➔ Prohibiting fraudulent and unfair trade practices.
- ➔ Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, intermediaries, self-regulatory organizations, mutual funds and other persons associated with the securities market.

2.2 Participants

Participants in the Securities Market

The securities market essentially has three categories of participants, namely, the issuers of securities, investors in securities and the intermediaries, such as merchant bankers, brokers etc. While the corporates and government raise resources from the securities market to meet their obligations, it is households that invest their savings in the securities market.

Necessity to transact through an Intermediary

It is advisable to conduct transactions through an intermediary. For example you need to transact through a trading member of a stock exchange if you intend to buy or sell any security on stock exchanges. You need to maintain an account with a depository if you intend to hold securities in demat form. You need to deposit money with a banker to an issue if you are subscribing to public issues. You get guidance if you are transacting through an intermediary. Choose a SEBI registered intermediary, as he is accountable for its activities. The list of registered intermediaries is available with exchanges, industry associations etc.

Segments of Securities Market

The securities market has two interdependent segments: the primary (new issues) market and the secondary market. The primary market provides the channel for sale of new securities while the secondary market deals in securities previously issued.

