



## Trading mechanisms of securities law in India with capital market and money market

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### Abstract

That before 1850 securities were traded at Bombay. Mainly the share of commercial Bank; Mercantile Bank and Bank of Bombay and Securities for being and selling includes securities of East India Company.

In 1850, American Civil War broke out, resulting in the rise of Joint Stock Company, which led to the passing of the Companies Act 1850. The present Dalal Street in Bombay began to run in 1874 where brokers meet and conduct their securities business. On 9<sup>th</sup> July 1985 trading business was formalized with the name of Bombay Stock Exchange. The Stock Exchange of Bombay, i.e. Native Share Broker Association started with about 318 members initially. The fee of Rs. 1 in 1887; reached 1000 in 1896 to 48000 in 1920 to 55 lakhs in 1994 gives manifestation of the development of stock exchanges in India. This manifestation shows huge growth of trading market in India.

**Keywords:** money market, trading, securities

### Introduction

The origin of stock exchanges in India lies in the later half of the 18<sup>th</sup> century. By 1830 the stock market in India was fledgling with the development of some corporate stocks mainly due to textile mills; which exported cotton to America and Europe at exorbitant prices; The Bombay Stock Exchange is the oldest Capital market in India; Though it was established much earlier; it was only formalized in 1875 as 'The Native Share and Stock Broker's Association'. This was mainly a voluntary no-profit making association<sup>[1]</sup>.

The history of securities market in India dates back to 18<sup>th</sup> century and securities were mainly traded by the East India Company. But at that time the trading sector was unorganized and most of the trading was done in Bombay (Presently Mumbai) and Calcutta (Now Kolkata). Bombay Stock Exchange was the Chief trading centre.

In 1860-61 American Civil War was broken out and due to the reason of American War Bombay became an important source for supply of cotton and with this became the part of trading activities which resulted in a boom in share prices.

In 1926, Bombay Securities Control Act was passed which recognized Bombay Stock Exchange prior to the passing of this act trading activities were not formalized and took place in the town hall of Bombay under a banyan tree.

The capital market at that time was not well organized because the government was in the hands of British people and they are least interested in the growth and development of Indian economy. Many companies in India at that time relied on the London Capital market for financial assistance and funds. Even after the independence, capital market is not well developed in India because the main emphasis of Indian government at that time to develop agriculture and public

undertaking sector.

Public sector undertakings were healthier than the private undertakings in terms of paid-up capital but their shares were not listed on the stock exchanges; moreover, the controller of Capital issues [CCI] closely supervised and controlled the timing; composition; interest rates; pricing; allotment and floatation costs of new issues; these stock regulations demotivated many companies from going public for almost four and a half decades<sup>[2]</sup>.

In 1950 speculation became rampant because of this the stock market is known as 'Satta Bazaar'. In 1956; the Government enacted the Securities Contract (Regulation) Act for development of financial institutions such as LIC and GIC and state financial corporation. UTI i.e. Unit Trust of India was first mutual fund of India came into existence in 1964.

In the year 1973; from the very first time investors got a favourable chance to invest their shares in the stock of big MNCs which includes Colgate and Hindustan Lever Limited; etc.

In 1977, Reliance Industries entered in Capital market and still the favourite and dominates all trading stock exchanges in India. In 1991 the Government of India initiated the LPG Policy i.e. liberalization, privatization and globalization with the advent of this the Capital Issue (Control) Act, 1974 was repealed and SEBI became the most emerging regulator in capital market. The SEBI i.e. securities exchange Board of India was enacted in the year 1992; because in 1990 many scams took place in Capital market which shook away the interest of small investors. In the year 2000 a huge scam took place which is known as Ketan Parekh Scam as a result of this scam; badla system of securities was discontinued.

This all contains the long journey of Indian capital market; Now the capital market is more organized; in terms of

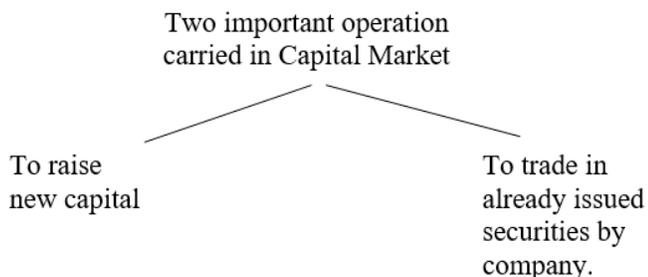
<sup>1</sup> Retrieved from History and Development of Security laws in India Distance Education department National Law School of India, pp. 10-12.

<sup>2</sup> <http://www.indiamba.com> retrieved on 25 Dec. 2017 at 4p.m.

integrity followed with technology advances in computer and also more globalized across the world.

### Meaning of capital market

The capital market deals with capital; it is a market for all the financial instrument raising of short term and long term capital; commercial industrial and government paper. It is deals both debt and equity central and state government raises long term and short terms funds by the way of shares, debentures bonds etc.



The important constituents of the capital market are:

- The Stock exchanges
- The Banks
- The Investment trusts and companies
- Specialised financial institutions
- Development banks
- Mutual funds
- Post office saving banks
- Non-banking financial institutions
- The international financial investors and institutions.

The main source of saving in capital market are as follows:

- Individuals
- Corporations
- Government companies
- Public and private banks
- Foreign countries
- Financial institutions etc.

Thus capital market is a market where debt or equity securities are traded<sup>[3]</sup>.

Capital market is made up of three major parts which includes stock market; Bond market and money market. It also works as an exchange for trading existing claims on capital in the forms of shares<sup>[4]</sup>.

Capital market is a financial market in which long-term, debt obligations and equity securities are brought and sold; it is the market for long term investment funds in the form of stocks; bonds; commercial paper etc.<sup>[5]</sup>

The capital market is further classified as: Primary capital market and secondary capital market.

### Significance of capital market

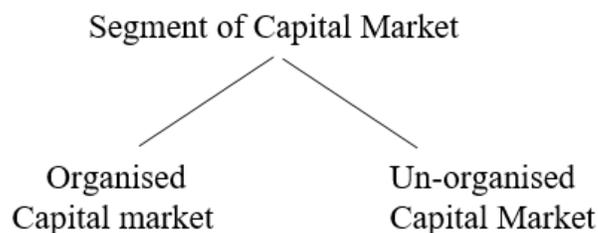
Capital markets are very important for the companies because

they provide a way to the companies to collect financier to operate their businesses. These markets also provide the liquidity option to the shareholders to pay back the shares to take money out of the market any investors of willing to invest in the stock only if they have the option to liquidate and this is only provided through capital market<sup>[6]</sup>.

The capital market acts as a brake on channeling savings to low-yielding enterprises and impels enterprises to locus on performance. It continuously monitors performance through movements of share prices in the market and the threats of takeover. This improves efficiency of resource utilisation and thereby significantly increases returns on investment as a result; savers and investors are not considered by their individual abilities are not considered by their individual abilities but facilitated but the economy's capability to invest and save which inevitably enhances savings and investment in the economy<sup>[7]</sup>.

### Categories of capital market

Generally every product has its own market place for conducting business so, the same goes with the trading of share and debentures trading are conducted in capital market which includes



Further segments of capital market are comprised in:

- Primary market
- Secondary market.

### Primary Market

The primary market is concerned with the new issues of the company whenever a company wants to raise its capital through equity shares, preference shares and debentures it can issue that in three ways – Public issues; right issues and private placements<sup>[8]</sup>. Primary market deals only with the issuance of new securities. The process of selling new issues; to investors is called underwriting.

Primary market provides advantage to both companies and investors, the primary capital market helps the companies to raise huge amount of capital. The tendency of debt raised by primary market is 3 to 5 years as compared with bank capital market have high risk tolerance capacity. The main purpose of primary market is to enable the companies to collect the small droplets of the investors money to pool together a vast ocean of equity/debts capital for themselves.

<sup>3</sup> www.investorwords.com assessed on 25.12.2017 at 11:45 am.

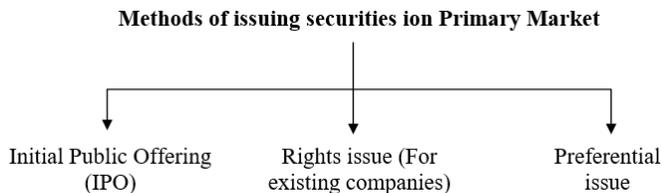
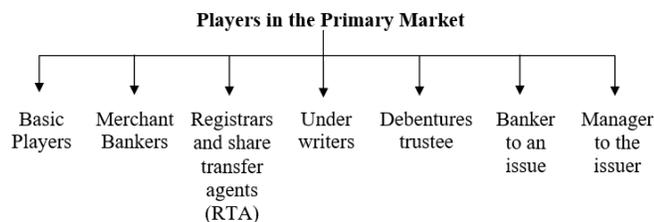
<sup>4</sup> www.businessdictionary.com assessed on 25.12.2017 at 12:15 p.m.

<sup>5</sup> www.teachmefinancial.com assessed on 25.12.2017 at 1:20 pm

<sup>6</sup> www.blurtit.com assessed on 26 Dec. 2017 at 12:35 pm

<sup>7</sup> G.N. Bajpai, Development of Capital Market in India at London School of Economics on 2<sup>nd</sup> October 2006; by G.N. Bajpai.

<sup>8</sup> C.B.A.'s by upndra and Goel Page no. 145.



### Development of primary market

Primary market introduces stock invest scheme and abridged prospectus also open mutual fund business to private players, primary market introduce new and variety of capital market instrument. It also issue securities in the electronic form and made compulsory the credit rating scheme for debt issues.

### Secondary Market

The secondary market deals with the securities which have already undergone the first allotment stage in the primary market. Securities are known as outstanding securities and are traded on the stock exchange with the help of brokers and intermediaries.

The secondary market, also known as the aftermarket, is the financial market where previously issued securities and financial instruments such as stocks, bonds, options and futures are brought and sold<sup>[9]</sup>.

Secondary market plays an important role in capital market, it is to be highly liquid so that greater number of investor participate in secondary market.

### Players in the secondary market

- Portfolio manager
- Stock Broker and sub-brokers
- Market makers and over-the counter exchange of India.
- Stock exchange.

### Money Market

#### Concept and Meaning of money market

Money market refers to the market where borrowers and lenders exchange short-term funds of solve their liquidity needs. Generally short-term funds are traded in the money market, for meeting the temporary availability of cash. The money market also known as bill market; the treasury bill market, the commercial paper market and the certificate of deposit market etc. The transactions are required to be on "Same day settlement" basis.

#### Constituents of money market

Commercial banks, financial intermediaries, corporate house and RBI are the major constituents of money market.

### Money market instruments

- Treasury bills
- Commercial bills
- Certificate of deposit
- Commercial paper
- Inter Bank Participation (IBP)
- 364 Days Treasury Bills.
- Gilt - edged/Government securities.

### Capital Market vis-a-vis money market

Capital market deals with raising of long term funds as compared to money market which raises short term fund or short duration fund. The money market provides the institutional source for providing working capital to the industry, while the capital market offers long-term capital for financing fixed investments.

- Capital market basically deals with stock and bonds and money market deals with commercial paper and certificates of deposits.
- Another difference between capital market is capital market is controlled by the government. But the controlling authority in case of money market is commercial bank.
- Capital market provides fixed capital, whereas money market provides working capital.

### Conclusion

Thus, to conclude the Indian financial was fairly well-developed on the eve of planning. Finance is the life blood of the business. Thus, financial market plays an important role by mobilizing finances to business enterprises. Financial markets are the market which generally transfer financial resources from the savers to the entrepreneurs. It helps to bring borrowers and lenders together financial market have two major segments which includes capital market and money market.

Capital market is market for trading of securities and embraces all forms of lending and borrowing.

Money market constitutes important segment in Indian financial system in deals with the short term assets.

Both capital market and money market in India are regulated by companies Act; the SCRA 1956; The SEBI Act 1992, The Depositories Act 1996; The RBI Act etc.

Despite of this, the securities market suffers from many short comings also. The investors feel cheated in respect of risk, return and liquidity of financial assets. Sound and efficient securities market allow capital raisers and investors to diversify sources of investment capital and spread investment risk.

Therefore, there is a need to strengthen market regulation through adoption of market oriented approach market regulation seek to regulate keeping in view the objectives relating to various market intermediaries investors in capital / securities market.

Overall, critical analysis consequential the law and its requirement, protection, enforcement; prohibition for smooth and healthy money flowing in the capital market/ securities market. Their regulations, control and check over their functions are required to that these acts or law is useful for

<sup>9</sup> www.businessdictionary.com assessed on 28 Dec. 2017 at 10 am.

beneficial to the society.

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