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Capital Markets and its Challenges with Special Reference to 'Reforms in the Capital Markets in India'

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Abstract: ***During the Nineteen Eighties, the developing countries started liberalizing their economies. There has been larger stress on the event of equity markets as an area of economic reforms. India has also followed this path. Globalization, financial markets are becoming more and more important every day. A developed stock market is considered crucial to national economic growth as it provides an additional channel along with banks and other financial institutions, for encouraging and thus mobilizing domestic savings. It additionally ensures enhancements within the productivity of investment through the market allocation of capital and will increase management discipline through the marketplace for company control. A study by the World Institute for Development Economic Research (WIDER, 1990) has argued that the developing countries should liberalize their financial markets in order to attract foreign portfolio equity flow. The huge amount of financial capital available in the developed countries through pension and investment funds could be attracted to the developing countries provided the latter liberalize their markets externally and developed their stock market internally. Capital markets have taken a distinguished place within the developing countries national economy throughout the last decade. The most necessary live taken during this regard by developing countries was the gap of their individual stock markets to international investors. This step, taken in the late 1980s or early 1990s, resulted in a historically high level of portfolio investment in the emerging markets by global and regional funds. In developing countries like India, there is a great need for foreign capital not only to increase the productivity of labour but also to build a foreign exchange reserve to meet trade deficits. After opening up the borders for capital movement in 1991, foreign investment in India has grown enormous.***

Keywords: Equity Market, Capital Market, Economy, Productivity, Marketplace, Financial Institutions, Investors, Foreign Investment

1. Introduction

The capital market may be important for the financial set-up. The capital market provides the support of laissez-faire economy to the country. The wave of economic reforms initiated by the govt. has influenced the functioning and governance of the capital market. The Indian capital market is additionally undergoing structural transformation since the easement. The chief aim of the reforms exercise is to enhance market potency, create stock exchange transactions a lot of clear, and curb unfair trade practices and to bring our money markets up to international standards. Further, the consistent reforms in the Indian capital market, particularly within the secondary market leading to trendy technology and online mercantilism have revolutionized the securities market. Capital market involved with the economic security market, government securities markets, and long run loan market. The capital market deals with long term loan market. It supplies long-term and medium-term funds. It deals with shares, stocks debentures and bonds. Security dealt in capital markets is long-term securities. It provides a market mechanism for those that have to save and to those that want funds for productive investments the capital market aids economic growth by moiling the savings of the economic sector and directing the same towards channels of productive uses. [1] Companies intercommunicate them to boost funds required to finance for the infrastructure facilities and company activities. The capital market is a supply of financial gain for investors. When the stock of different money assets rise in price, investors become wealthier, often they spend some of this additional wealth boost sales and promoting economic growth. Stock price reflects capitalist reactions to government policy also if the govt. adopts policies that investors believe can hurt the economy and company profits, vice-versa.

2. Definition and Meaning of Capital Market

The capital market may be a place wherever individuals purchase and sell securities. Securities during this sense is solely a bundle of rights oversubscribed to the general public by firms, authorities or establishments on which individuals then change the capital market. There square measure different types of securities or bundles of rights. These include shares, debentures, bonds, etc. There are two levels of the market. The primary market is that the market wherever those desire to boost funds from the stock exchange sells their securities to the general public. The secondary market is wherever people who bought the securities within the IPO [2] will sell them any time they want. The reason why individuals purchase securities from the first market is as a result of they need the reassurance that there's a secondary market wherever they'll sell those shares presumably at a profit.

Capital Market defined as "The market for relatively long-term financial instruments. It consists of the gilt-edged market and the industrial securities market. The gilt-edged market refers to the marketplace for government and semi-government securities backed by the run batted in. The securities traded in this market are stable in value and are much sought after by banks and other institutions". [3]

Main components of the capital market are
1. Primary Market 2. Secondary Market

A. Primary Market (New Issue Market):

The primary market is additionally referred to as the new issue market. As during this market securities square measure oversubscribed for the primary time, i.e., new securities square measure issued from the corporate. Primary capital market directly contributes to capital formation as a result of in primary market company goes on to investors and utilises these funds for investment in buildings, plants, machinery etc. The primary market doesn't embrace finance within the variety of a loan from a financial institution as a result of once the loan is issued from the money institution it implies changing personal capital into public capital and this method of changing personal capital into public capital is termed going public. The common securities issued in the primary market are equity shares, debentures, bonds, preference shares and other innovative securities. [4]

Methods of Floatation of Securities in Primary Market

The securities may be issued in the primary market by the following methods:

1) Public Issue through Prospectus:

Under this methodology company problems a prospectus to tell and attract the general public. In the prospectus, the company provides details about the purpose for which funds are being raised, the past financial performance of the company, background and future prospects of the company.

The information within the prospectus helps the general public to grasp concerning the danger and earning potential of the corporate and consequently they decide whether or not to take a position or not therein company Through IPO [5] company can approach a large number of persons and can approach public at large. Sometimes companies involve intermediaries such as bankers, brokers and underwriters to raise capital from the general public.

2) Offer for Sale

Under this methodology, new securities are offered to the general public but not directly by the company but by an intermediary who buys a whole lot of securities from the company. Generally, the intermediaries are the firms of brokers. So the sale of securities takes place in two steps: first when the company issues securities to the intermediary at face value and second when intermediaries issue securities to the general public at a higher price to earn a profit. Under this method, the company is saved from the formalities and complexities of issuing securities directly to the public. [6]

3) Private Placement

Under this methodology, the securities are sold by the company to an intermediary at a fixed price and in second step intermediaries sell these securities not to the general public but to selected clients at a higher price. The provision company problems prospectus to grant details concerning its objectives, future prospects so that reputed clients prefer to buy the security from the intermediary. Under this methodology, the intermediaries issue securities to selected clients such as UTI, LIC, General Insurance, etc.

The personal placement methodology could be a cost-saving methodology as an organization is saved from the expenses of underwriter fees, manager fees, agents' commission, a listing of the company's name in stock exchange etc. Small and new corporations like personal placement as they cannot afford to boost from public issue.

4) Right Issue (For Existing Companies)

This is the problem of recent shares to existing shareholders. It is called the right issue because it is the pre-emptive right of shareholders that the company must offer them the new issue before subscribing to outsiders. Each investor has the proper to take the new shares within the proportion of shares he already holds. A right issue is mandatory for companies under the Companies' Act 2013. The stock market doesn't permit the present corporations to travel for a replacement issue while not giving pre-emptive rights to existing shareholders as a result of if the new issue is directly issued to new subscribers then the existing equity shareholders may lose their share in capital and control of company i.e., it would water their equity. To stop this the pre-emptive or right issue is compulsory for an existing company. [7]

5) e-IPOs: [8]

It is the new method of issuing securities through an online system of stock exchange. In this company has got to appoint registered brokers for the aim of accepting applications and inserting orders. The company providing security has got to apply for listing of its securities on any exchange aside from the exchange it offered its securities earlier. The manager coordinates the activities through numerous intermediaries connected with the problem. [9]

B. Secondary Market (Stock Exchange):

The secondary market is that the marketplace for the sale and buy of previously issued or second-hand securities. In the secondary market, securities are not directly issued by the company to investors. The securities square measure oversubscribed by existing investors to alternative investors. Sometimes the investor is in need of cash and another investor wants to buy the shares of the company as he could not get directly from the company. Then each the investors will meet in secondary market and exchange securities for money through intercessor known as a broker.

In the secondary market, companies get no additional capital as securities are bought and sold between investors only so directly there is no capital formation but secondary market indirectly contributes in capital formation by providing liquidity to securities of the corporate. [10]

If there's no secondary market then investors may revisit their investment solely when the redemption amount is over or once an organization gets dissolved which suggests investors can be blocked for an extended amount of your time however with the presence of secondary market, the investors can convert their securities into cash whenever they want and it also gives chance to investors to create profit as securities square measure bought and oversubscribed at market value that is usually quite the first price of the securities.

Capital Market Regulators:
Often in the haste of becoming a market participant/ trader/ investor, we forget to know the roots governing the Stock Market. This means that we tend to overlook the principles, rules, regulatory bodies who guide the flow of Indian Capital Markets. This becomes important for us to know because they have a major impact on our financial decisions. At times, any modification within the rules or rules of the Act, governing the Indian Capital Market tends to bring substantial change on market psychology or sentiments. This eventually affects our financial decisions.

In this article, we are going to perceive on United Nations agency governs the capital of India Markets. Rules governing the stock exchange, transient on the stock exchange, Stock Market participants, and functions of the Stock Market. [11]

While available investment Market some opt to take less risk and go short. Others may prefer to take a long-term leap. The basis of this money market is split into two kinds of the market- Money Market and Capital Market. While Money Market Securities are short-term in nature. A Capital Market pitches long-term investments.

The Ministry of Finance (MoF), the Securities & Exchange Board of India (SEBI) and also the Reserve Bank of India (RBI) are the 3 restrictive authorities governing Indian Capital Markets.

Ministry of Finance (MoF)
The Department of Economic affairs directly manages the Capital Markets phase beneath the directions of MoF. This phase formulates the principles for the economic growth of the stock exchange which incorporates derivatives, debt, and equity. [12] It conjointly formulates laws for safeguarding the interest of the investors. This phase regulates the capital of India Markets through the subsequent laws:
- Depositories Act, 1996.
- Securities Contract (Regulation) Act, 1956.
- Securities and Exchange Board of India Act, 1992.

Reserve Bank of India (RBI) [13]
The bank of India Act, 1934 governs policies framed by the Reserve Bank of India. The functions of RBI during this regard are as follows:
- Implementation of Monetary and Credit policies.
- Issuance of Currency Notes.
- Government's Banker.
- Banking System Regulator.
- Foreign Exchange through Foreign Exchange Management Act, 1999.
- Managing payment & settlement system.

Apart from the higher than functions, RBI is also actively involved in developing the financial market.

Securities & Exchange Board of India (SEBI) [14]
The Securities & Exchange Board of Bharat (SEBI) Act, 1992 regulates the functioning of SEBI. SEBI is that the apex body governing the Indian stock exchanges. The primary functions of SEBI are as follows:
- Protective Functions
- It checks Price rigging.
- Prohibits insider trading.
- Prohibits fraudulent and Unfair Trade Practices.

Development Functions [15]
- SEBI promotes coaching of intermediaries of the stock exchange.
- SEBI tries to push activities of the stock market by adopting a versatile and all-mains approach.

Regulatory Functions [16]
- SEBI has framed rules and laws and a code of conduct to control the intermediaries like merchant bankers, brokers, underwriters, etc.
- These intermediaries are brought beneath the regulative ambit and personal placement has been created a lot of restrictive.
- SEBI registers and regulates the operating of stock brokers, sub-brokers, share transfer agents, trustees, merchant bankers and everyone people who are related to the stock market in any manner.
- SEBI registers and regulates the operating of mutual funds etc.
- SEBI regulates takeover of the companies.
- SEBI conducts inquiries and audit of stock exchanges.
- The participation in the Indian Stock Market of both the domestic or foreign financial intermediaries is governed by the regulations framed by SEBI. Additionally, Foreign Portfolio Investors (FPIs) can participate in the Indian Stock Market after registering them with an authorized Depository Participant.

National Stock Exchange of India (NSE) [17]
NSE is responsible for formulating and implementing the rules pertaining to:
- Registration of Members.
- Listing of Securities. [18]
- Monitoring of Transactions.
- Compliance.
- Other additional functions related to the above functions.

NSE itself is regulated by SEBI and is beneath regular vigilance for all regulative compliances.

Reforms in the Capital Market of India:
The major reforms undertaken in the capital market of India include:-

Establishment of SEBI: The Securities and Exchange Board of India (SEBI) was established in 1988. It got a legal status in 1992. SEBI was primarily got the wind off to control the activities of the businessperson banks, to control the operations of mutual funds, to work as a promoter of the stock exchange activities and to act as an administrative body of recent issue activities of firms. The SEBI was got wind of with the basic objective, "to protect the interest of investors in the securities market and for matters connected therewith or incidental thereto." [19]

Establishment of Creditors Rating Agencies: Three creditors rating agencies viz. The Credit Rating Information Services of India Limited (CRISIL - 1988), the Investment Information and Credit Rating Agency of India Limited

(ICRA - 1991) and Credit Analysis and Research Limited (CARE) were got wind of so as to assess the money health of various money establishments and agencies associated with the stock exchange activities. It is a guide for the investors conjointly in analysing the risk of their investments.

Increasing of businessperson Banking Activities: Several Indian and foreign business banks have got wind of their businessperson banking divisions within the previous few years. These divisions give money services like underwriting facilities, issue organising, consultancy services, etc. It has evidenced as an assist to factors associated with the capital market.

Intimate Performance of Indian Economy: In the last few years, the Indian economy is growing at a good speed. It has attracted an enormous flow of FII [20]. The massive entry of FIIs in the Indian capital market has given good appreciation for the Indian investors in recent times. Similarly, several new firms are rising on the horizon of the Indian Capital Market to lift capital for his or her expansions.

Rising Electronic Transactions: Because of technological development within the previous few years. The physical transaction with more paperwork is reduced. Now paperless transactions are increasing at a fast rate. It saves money, time and energy of investors. Thus it's created finance safer and hassle-free encouraging a lot of individuals to affix the capital market. [21]

Growing fund Industry: The growing of mutual funds in India has definitely helped the capital market to grow. Public sector banks, foreign banks, financial institutions and joint mutual funds between the Indian and foreign firms have launched many new funds. A big diversification in terms of schemes, maturity, etc. has taken place in mutual funds in India. It has given a wide choice for common investors to enter the capital market.

Growing Stock Exchanges: The numbers of varied Stock Exchanges in India are increasing. Initially, the BSE was the prominent exchange, however currently when the fixing of the NSE and also the OTCEI, stock exchanges have spread across the country. Recently a replacement Inter-connected stock exchange of India has joined the present stock exchanges.

Investor's Protection: Beneath the orbit of the SEBI the Central Government of India has got wind of the IEPF [22] in 2001. It works in educating and guiding investors. It tries to protect the interest of small investors from frauds and malpractices in the capital market. [23]

The growth of Derivative Transactions: Since June 2000, the NSE has introduced the derivatives trading in the equities. In November 2001 it conjointly introduced the future and optional transactions. These innovative products have given a selection for the investment resulting in the growth of the capital market.

Insurance Sector Reforms: Indian insurance sector has also witnessed massive reforms in the last few years. IRDA [24] was got wind of in 2000. It sealed the entry of the private insurance companies in India. As several insurance firms invest their money within the capital market, it has expanded. [25]

Commodity Trading: Together with the commercialism of normal securities, the trading in commodities is also recently encouraged. MCX [26] is set up. The volume of such transactions is growing at a splendid rate.

3. Conclusion

A market is an arrangement that allows buyers and sellers to come together to exchange money for goods, services, or financial assets. Markets can be physical or virtual. Examples of capital markets are markets for purchasing and marketing stocks and bonds. They embrace primary markets, where newly issued stocks and bonds are sold to investors, and secondary markets in which existing stocks and bonds are traded. Capital markets play a very important role in the economy. Through primary capital markets, businesses and entrepreneurs will issue stocks and bonds to lift monetary capital to begin or expand businesses. Through each the first and also the secondary capital markets, savers are able to buy financial assets from which they hope to gain returns and build wealth. A stock may be a share of possession during a company. A bond may be a certificate of liability issued by a government or corporation. The government or corporation is needed to repay the loan in conjunction with some quantity of interest.

Now you recognize some basics regarding capital markets, stocks and bonds and the way capital markets profit the economy.

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[13] *India's central banking establishment that controls the issuing and provides of the Indian monetary unit.*

[14] *SEBI is that the regulator for the exchange in the Republic of India. It was established in 1988 and given statutory powers on thirty January 1992 through the SEBI Act, 1992.*

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