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Basics of Financial Market and SEBI Regulations

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ABSTRACT

This document centers on the examination of the financial market that enhances domestic financial stability. It represents the core of a dynamic ecosystem where different instruments like currencies and bonds are exchanged. The financial market acts as a venue for capital distribution and risk management.

***Keywords**: Financial Market, Trends, Challenges, Capital, Dematerialization, DE-mat.*

Introduction

A business operates within an economic framework that includes two primary sectors – households that save money and business entities that invest these savings. A financial market assists in connecting savers with investors by channeling funds between them. In this capacity, it fulfills an allocated role. It distributes or steers available investment funds towards the most productive opportunities for investment.

There are two primary alternative methods through which fund allocation can occur: through banks or through financial markets. Households have the option to deposit their extra funds in banks, which can subsequently provide loans to corporate sectors. Alternatively, individuals can invest in various sources of finance like debentures, mutual funds etc. Financial markets act as a framework offering framework for investments. These markets are present whenever a financial transaction takes place. These transactions may involve issuing, buying and selling of securities.

Literature Review

Barents Group LLC (1997) is an important source of Indian budget savings and foreign investors to at tract more and more efficient, safe and transparent markets. I considered that it could be done. Indi an retail investors are primarily short term dealers, and trade between Japan is not uncommon. As long as publicly traded stock purchases are perceived as dangerous and speculative short term activity, many potential investors simply avoid determining capital market equipment to allocate savings.

Makbul Rahim (2001) argued in his speech that regulatory frameworks must provide an appropriate environment for market development and growth. High standards for perception and professional behavior must be maintained, and the standards of the first class must be met. Consistency is also very important. Development of appropriate free information and disclosure flows can help investor s make evidence based investment decisions. Derived markets help determine not only the p interviews with representatives from several large companies showed that they sometimes prefer to use options as a means of protection. They also argued that derivatives could promote international capital inflows.

B.Das(2008) contended attitude of investor towards brick selection and proved that they have major issues with stock exchanges. They discovered empirically and closed. This is valuable for companies with such investment opportunities for both investors and businesses. First, different investment channels do not provide the same satisfaction. And the majority of investors come from younger groups.

Functions of Financial Market

- **Mobilization and allocation of funds-** It serves as a link to channelize the savings into productive sectors by offering various investment options by aiding for efficient use.
- **Enabling the determination of prices**-In financial market household act as fund lenders wile business firms sow their demand.
- **Supplying liquidity to financial instruments**-It allow for the straightforward buying and selling of financial assets. In this way, they grant liquidity to financial assets, enabling them to be quickly converted into cash as needed. Asset holders can easily sell their financial assets through the financial market mechanism.

Money Market

The money market is a marketplace for short-term funds that deal with financial assets that have a maturity time of up to one year. These assets function similarly to money. It is a low-risk market where unsecured debt instruments are bought and sold.

Primary Market

The primary market is referred to as a market for new issues. It manages new securities that are released to the market for the first time. It facilitates the transfer of investable securities from entrepreneurs to savers. Through the primary market, businesses can raise money through loans, deposits, bonds, debentures, preference shares, and equity.

Secondary Market

It is known as the stock market or stock exchange. It acts as a marketplace for the trading of previously issued securities.

Stock Market

The stock market is an entity that provides a platform for trading existing securities. According to the Securities Contracts (Regulation) Act of 1956, a stock exchange is any group of people—which may or may not be incorporated—formed to promote, regulate, and supervise the buying, selling, and trading of securities.

Distinction between Capital and Money Market

- **Participants** - The people who take part in the capital market consist of financial organizations, banks, businesses, foreign investors, and everyday retail investors from the general public. Typically, the money market is engaged by institutions such as the Reserve Bank of India, banks, financial organizations, and finance companies. Although individual investors can participate in the secondary market, they usually do not take part in it.
- **Instruments** - The main tools that are bought and sold in the capital market include stocks, shares, debentures, bonds, preference shares, and others. The important items that are traded in the money market include short-term debt instruments, such as T-Bills, bill reports, commercial papers, and certificates of deposit.
- **Liquidity:** Securities in the capital market are regarded as liquid investments because they can be traded on stock exchanges. However, a share may not be subject to active trading, meaning it may not easily attract a buyer. Conversely, money market instruments benefit from a greater level of liquidity due to established formal arrangements for trading. The Discount Finance House of India (DFHI) was created specifically to ensure a ready market for money market instruments.
- **Safety:** Instruments in the capital market carry higher risks regarding both returns and principal repayment. Companies that create these types of securities might not do as well as expected, and people promoting them could mislead investors. On the other hand, the money market is usually more secure, with a reduced chance of failure. This security comes from shorter investment times and the strong financial health of those issuing them, which primarily consist of the government, banks, and well-established companies.

Depositories and Dematerialization

Currently, all securities transactions are executed through computer terminals. The purchase and sale of securities are completed through an electronic book entry procedure because all processes are computerized. This method is widely used to address problems like theft, counterfeit transfers, delays in transfers, and the documentation related to share certificates or debentures physically kept. This procedure gives the investor an electronic entry or number that allows them to keep it as an electronic balance in an account. It also entails canceling securities that the investor physically holds.

The Securities and Exchange Board of India (SEBI) has stipulated that the settlement processes for certain chosen securities must take place in demat form. Putting shares in demat form are quite easy to use since they resemble a bank account. Physical sales can be converted to electronic format, or electronic sales can be converted back to physical format. Dematerialization enables the transfer of shares to another account in the same manner that cash does, and it also enables the guarantee settlement of transactions to similar accounts for shares. Loans can also be secured by pledging or hypothecating demat securities. There is no risk of loss, theft, or forgery related to the share certificate. It is the broker's duty to make sure the right amount of shares is deposited into the investor's account.

The Functioning of the Demat System

- A firm can be identified as a depository participant (DP).
- Documentation and an account opening form (such as PAN card information, photograph, and power of attorney) may be filled out.
- The physical certificate, along with the dematerialization request form, can be presented to DP.
- Shares acquired through a public offering must include basic information about the demat account and depository participant, and they will be instantly credited to the demat account upon allotment.
- The DP should be directed to debit the account for a certain quantity of shares if they are sold through a broker.
- The broker then instructs DP to deliver shares to the stock exchange.
- The broker then gets paid and reimburses the person for the shares they sold.
- All of these transactions must be completed within two days, thus delivery of goods and payment from the buyer must be received on a T+2 basis during the settlement period.

Depository

A depository operates like a bank, keeping securities in electronic form for investors; much like a bank does with money for its customers. A security account can be created within the Depository. All the shares may be deposited, withdrawn, or sold at any time, and orders to deliver or receive shares on behalf of investors can be given. It is an electronic storage system driven by technology. It does not involve any paperwork for share certificates, transfers, forms, or anything else. Because all securities are recorded in book-entry format, all transactions for the investors are carried out with improved speed, efficiency, and simplicity.

There are Two Depositories in India

- **The National Securities Depository Limited (NSDL),** which is the largest and primary one currently operating there. It was founded as a partnership among the NSE, UTI, and IDBI.
- **Central Depository Services Limited (CSDL),** which is being operations' secondary depository, was started by the Bank of India and the Bombay Stock Exchange. Both of these National level depositories operate through intermediaries known as Depository Participants (DPs), who are electronically connected to the depository and serve as points of contact for investors. DPs act as intermediaries between investors and NSDL, CSDL, and are authorized to manage the accounts of dematerialized shares. Banks, financial businesses, clearing organizations, stock brokers, and non-bank financial firms are all permitted to act as DP. When an investor buys and sells securities through a broker, bank, or non-banking financial company (NBFC) that acts as a depository participant (DP) for the investor and helps with the required processes.

Securities and Exchange Board of India (SEBI)

The government of India established SEBI as a temporary regulatory body on April 12, 1988, to promote the organized and real growth of the securities market and to safeguard investors. It was to function under the Ministry of Finance of the Government of India’s overall administrative oversight. The

SEBI was granted statutory status by an ordinance on January 30, 1992, which was later repealed by the SEBI Act, 1992, an Act of Parliament.

The SEBI's Establishment and Regulations' Rationale

During 1980, particularly marked by greater public involvement, the capital market experiences a remarkable growth. The continuously expanding investor demographic and market capitalization led to several abuses by firms, brokers, merchant bankers, investment consultants, and others in the securities industry. Notable examples of these offenses include the presence of self-proclaimed merchant bankers in unofficial private placements, unofficial premiums on new issues, noncompliance with the Companies Act, violations of the stock exchange's rules and regulations as well as listing criteria, and delays in share deliveries. Such malpractices and unfair trading have diminished investor confidence and increased investor complaints. The government and stock exchange were mostly powerless in addressing investor's issues due to lack of adequate penal provision existing legislations. Given this context the government of India opted to establish distinct regulatory body known as SEBI.

The function and goal of SEBI

- It aims to foster innovation and increase competition. This ecosystem includes institutions and their relationships, rules & regulations, tools, practices, infrastructure, and policy frameworks. The goal of this ecosystem is to meet the demands of the three groups that make up the market: issuers, investors, and market intermediaries.
- It aims to establish a marketplace for adversary issuers where they can reliably anticipate raising the necessary funds in a straightforward, equitable, and efficient manner.
- For the investors, it ought to safeguard their rights and interests by providing sufficient, precise, and genuine information, along with continuous disclosure of information.
- For intermediaries, it should showcase a growing, competitive professional market with adequate and efficient infrastructure that enables them to provide better services to both investors and issuers.

Objectives of SEBI

The main goal of SEBI is to protect the interests of investors and encourage the growth and regulation of the securities market. This can be explained in more detail as follows:

- To monitor stock exchanges and the securities sector to ensure they operate smoothly.
- To protect the rights and interests of investors, especially individual ones, while also offering support and education.
- To prevent dishonest trading practices and create a balance between self-regulation in the securities sector and necessary external regulation.
- To set rules and promote fair practices for intermediaries, like brokers and merchant bankers, with the aim of making the industry competitive and professional.

Functions of SEBI

Given the changing landscape of the securities market in India, SEBI has been given two main jobs: to regulate and to help grow the securities market. It also includes certain protective roles.

Regulatory Functions

- Keeping a record of brokers, sub brokers, and other participants in the market.
- Keeping a record of group investment plans and mutual funds.
- Controlling stock brokers, portfolio exchanges, underwriters, and merchant bankers while supervising activities in stock markets and other securities markets.
- Monitoring company takeover offers.
- Asking for information through inspections, conducting inquiries, and auditing stock exchanges and intermediaries.

Development Functions

- Training intermediaries.
- Conducting research.
- Fostering the development of capital markets.

Protective Functions

- Prohibiting fraudulent trading practices.
- Controlling insider trading.
- Taking measures for the protection of investors.

Conclusion

Financial markets encounter challenges and uncertainties; however, they continue to be essential drivers of economic activity and advancement. By promoting trust, innovation, and responsible management, financial markets will persist in playing a crucial role in shaping the future of the global economy.

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