

Capital Market

1. Capital Market

- **Capital Market:** A market where **long-term financial securities** are traded.
- **Time period:** Capital raised for **more than 1 year (365 days+)**.
- **Participants:** Individuals, banks, financial institutions, companies, mutual funds.
- **Instruments traded:** Shares, bonds, debentures, government securities.

Types of Capital Market

1. Gilt-Edged Market (Government Securities Market)

- Market for **government securities (G-Secs)**.
- Called **gilt-edged** because securities are **risk-free and of high quality**.
- **Major investors:** Commercial banks, LIC, GIC, Provident Funds.
- **Regulator:** RBI.
- **Key tool:** **Open Market Operations (OMO)** by RBI.

2. Industrial Securities Market

Deals with securities issued by companies.

(A) Primary Market

- Also called the **New Issue Market**.
- Securities issued **for the first time**.
- Companies raise fresh capital.

Common instruments

- Equity shares
- Preference shares
- Debentures
- Corporate bonds

(B) Secondary Market

- Market for **trading already issued securities**.
- Securities are traded **between investors**.
- Companies **do not receive funds directly**.

Example: Stock Exchanges (NSE, BSE)

Development Financial Institutions (DFIs)

Major All-India Financial Institutions (AIFIs)

- **IFCI – 1948**
- **ICICI – 1955**
- **IDBI – 1964**
- **SIDBI – 1990**
- **IIBI – 1997**

Current AIFIs regulated by RBI

- **NABARD**
- **SIDBI**
- **Exim Bank**
- **NHB**

Financial Intermediaries in the Capital Market

1. Banking Sector

- Backbone of the financial system.
- **Bank Nationalisation:** 1969 and 1980.
- **Private bank entry:** 1993-94 reforms.

Categories

- Public Sector Banks
- Private Sector Banks
- Regional Rural Banks
- Foreign Banks

2. Insurance Sector

- Liberalised in **1999 reforms**.
- Regulated by the **Insurance Regulatory and Development Authority of India (IRDAI)**.
- Private and foreign companies allowed.

Regulatory Framework of the Capital Market

India has **multiple financial regulators**.

1. Product-wise Regulators

Regulator	Regulates
RBI	Credit, banking system
SEBI	Securities market

Regulator	Regulates
IRDAI	Insurance
PFRDA	Pension sector

Important:

- **Forward Markets Commission (FMC) merged with SEBI in 2015.**

2. Quasi-Regulatory Institutions

These perform regulatory roles in specific sectors.

- **NABARD:** Supervises rural banks & cooperative banks
- **SIDBI:** Small industries financing
- **NHB:** Housing finance companies

3. Central Government Role

- **The Ministry of Finance** plays a major policy role.
- Representatives present on the **RBI, SEBI, and IRDAI boards.**

4. State Government Role

- **The Registrar of Cooperative Societies** regulates cooperative banks.

Financial Stability and Development Council (FSDC)

- **Established:** 2010
- **Chairperson:** Union Finance Minister
- **Nature:** Non-statutory body
- **Functions**
 - Coordination among regulators
 - Financial stability monitoring
 - Resolve inter-regulatory disputes
 - Oversight of financial conglomerates

Capital Market Reforms in India

1. Abolition of Controller of Capital Issues

- **The Capital Issues Control Act, 1947 abolished.**
- Recommended by **Narasimham Committee (1991).**

- Companies are allowed to raise capital with **SEBI approval instead of government permission.**

2. SEBI (Securities and Exchange Board of India)

- **Established:** 1988 (non-statutory)
- **Statutory status:** 1992

Major Functions

- Regulate the securities market
- Protect investor interests
- Regulate stock exchanges
- Regulate intermediaries

Foreign Investment in the Capital Market

Foreign investors are allowed to invest in:

- Equity shares
- Corporate bonds
- Government securities
- Treasury Bills

Foreign instruments

- **ADR – American Depository Receipts**
- **GDR – Global Depository Receipts**
- **FCCB – Foreign Currency Convertible Bonds**
- **ECB – External Commercial Borrowings**

Credit Rating Agencies in India

Important agencies:

- **CRISIL (1988)**
- **ICRA (1991)**
- **CARE (1993)**

Function: Assess the **creditworthiness of companies and securities.**

Secondary Market Reforms

1. National Stock Exchange (NSE)

- Established **1992**
- Operations began **1994**



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- Fully **electronic trading system**

2. OTCEI (Over The Counter Exchange of India)

- Established **1992**
- Promoted by **UTI, ICICI, IDBI, IFCI, LIC**

Purpose:

- Provide capital access to **small companies**

Depository System (1996)

- Introduced **dematerialisation (Demat)**.
- Eliminated **physical share certificates**.

Major Depositories

- **NSDL – National Securities Depository Limited**
- **CDSL – Central Depository Services Limited**

NSCCL (National Securities Clearing Corporation Ltd.)

- Established in **1996**.
- Handles **clearing, settlement, and risk management** for NSE.

Mutual Funds

- Mobilise **public savings**.
- Invest in **equities, bonds, and other securities**.
- Regulated by **SEBI**.

FSLRC Recommendations (2013)

Financial Sector Legislative Reforms Commission

Chairman: **Justice B. N. Srikrishna**

Key Recommendations

- **Unified Financial Agency (UFA)** – integrated regulator
- **Financial Redressal Agency (FRA)** – consumer complaints
- **Financial Sector Appellate Tribunal (FSAT)** – appeals