SECURITY MARKET REFORMS & THEIR IMPACT ON FUND RAISING IN INDIA

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ABSTRACT

In this essay, we will talk about the security market and their impacts on funds which are rising in India. Security market was established in January, 1992 in India. Security market is under the control of the Security and Exchange Board of India (SEBI). SEBI was given some legal powers to the security market. SEBI also reformed the two types of market; first one is the primary market and last is secondary market. These two markets are included in the security market. In these two markets, we will discuss in detail also. The security market gives a correlation between the savings and brings the investment beyond the entities. Security is widely defined as investments where investors should invest in the following types of securities: stocks, real estate, bonds, equity, mutual funds, notes, debentures, etc. FSE[1] and LSE[2] are examples of the security market. It is a type of a trading market for securities. It is also a type of an opportunity for the investors to take the advantage of securities which are bought or sold by the investors. Investors invest their securities which are issued by the companies, organizations, businesses, governments, etc. In this, we will describe and know about the SEBI's future outlook and the institutional investors. At last, we conclude the security market. We will discuss the above mentioned points in detail below.

Keywords: SEBI, Frankfurt Stock Exchange, London Stock Exchange, Institutional investors, Trading markets, Investments.

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[1] Frankfurt Stock Exchange, "https://www.deutsche-boerse.com/dbg-en/markets-services/trading/frankfurt-stock-exchange".
[2] London Stock Exchange, "https://en.wikipedia.org/wiki/London_Stock_Exchange".

1) INTRODUCTION OF SECURITY MARKET: -

Security market is the market where the securities are emerged and purchased by the investors and later on transferred among the investors is called the security market. It is a type of an economic institute. Security market is a module of the broad financial market where the security can be bought and sold between the issues of the economy on the basis of their demand and supply in the market. We call it security because it is a secure financial contract done with the investors. There are various types of securities such as debt securities, hybrid securities, derivative, equity securities, bond, securities, primary market, stocks, money markets, auction market, mutual funds, sales, certified securities and rights issue which are purchased or retail by the individuals. In the security market, equity and debt are the main parts. It is a trade center for securities. It offers an opportunity to the investors to make benefit from investing in the securities which are provided by the companies, government etc. Security market is administered by the Securities and Exchange Board of India (SEBI)[3]. Stock Exchange is the wide-reaching security market in India. This market ranks fourth in the world by equity trading volume. It provides an institutional structure for systematic flow of capital in the economy. Security market can be divided into the following categories: - primary market and secondary market.

A. **PRIMARY MARKET: -** Primary market is the beginning point of sale for newly emerged securities where companies and government put up their funds directly from the investors. In the term of the security market, the primary market plays a major role for organizations or businesses to set up their IPOs (Initial Public Offerings). Also the government has been issuing their bonds to reach its funding provision.

HOW DOES THE PRIMARY MARKET WORK?

- Companies emerge their new securities in the primary market to reach their various purposes such as funding projects or organization development.
- Illiberal ordinances govern all the issues in the primary market.
- Companies must record the statements with the Securities and Exchange Board of India

[3]Securities and Exchange Board of India Act, 1992; Established SEBI as a statutory body to protect investor interests, regulate the securities market, and promote its development in India "https://en.wikipedia.org/wiki/Securities_and_Exchange_Board_of_India_Act,1992".

(SEBI) to provide their securities to the investors.

- When all the bonds and stocks have been sold then the primary market has been closed.

ADVANTAGES OF PRIMARY MARKET: -

- **Capital infusion: -** Primary stock market permits the organizations and governments to lift up their capital for various objects and encourage economic growth and development.

- **Investor profit potential: -** Investors joining in the primary stock market, especially during IPOs, have the future to enjoy capital appreciation if the price of the securities increases in the secondary market.

- **Transparent pricing: -** The primary market grants amount recognition, ensuring that securities are originally selling price based on the market demand, financial performance and other applicable factors.

DISADVANTAGES OF PRIMARY MARKET: -

- **Market risks: -** The primary market is not exposed to market risks. Following aspects like economic deflation, industry definite challenges, and multi-governmental events can impact the performance of newly emerged securities.

- **Lack of liquidity: -** Different from the secondary market, where the securities can be purchased and retailed easily, the primary market includes a strongest match period for beginner investors. Lack of liquidity is a disadvantage only for those persons who may require dissolving their investments quickly.

- **Volatile initial performance:** - The performance of securities in the secondary market can be extremely inflammable initially. This variability may lead to unforeseeable consequences for investors in both positive or negative.

B. SECONDARY MARKET: - The secondary market is the market where the stock is purchased or retail by the investors. Trades are arising on the secondary market in the middle of investors and traders. People commonly connect the secondary market with the stock market. Such exchanges on a national level are included in secondary markets like New York Stock Exchange (NYSE) and National Association of Securities Dealers Automated Quotations (NASDAQ). NYSE is an American stock exchange market in New York City. NASDAQ is an American and Canadian stock market that allows the investors to buy the stocks related to a computer server that is easy to understand and fast.

WORKING METHODS OF SECONDARY MARKET: -

- As we wrote above, the Secondary market is the market where the securities are purchased or retailed by the investors.
- Most people called the secondary market the stock market. Stocks is the most regular exchange of securities, it is a type of secondary market.
- For example: - investment banks and corporate banks purchased and retailed the bonds or stocks on the secondary market. Secondary markets are important for various reasons.
- Firstly, they allow liquidity to the investors. It also gives the chance to small scale traders to take part in the market.

WHY THE SECONDARY MARKET IS CRUCIAL?

- Secondary market allows the investors to purchase or retail the securities and increase the liquidity of financial benefit.
- It also generates the extra financial value by providing more advantageous records to arise and make an upright value of a recommendation. It involves the retail and institutional investors such as mutual funds and hedge funds.
- Institutional investors and private company securities mostly use the secondary market.

2) **THE FUTURE OUTLOOK FOR AIFs UNDER SEBIs REGULATORY OVERSIGHT: -**

In 2012, SEBI established the AIFs. AIF stands for Alternative Investment Funds[4]. It

[4]Regulation 2(1)(b) of the regulation act 2012 of SEBI

acknowledges the AIF as a decided recommendation like PEs and VCFs. The aim was to construct a new level of investments that will finance the socially and economically demandable area and make sure the long-lived capital runs in India by enlightening a dissimilar virtue class of investors and lay down inferior restrictions on investments.

REGULATION: -

Agreeing to the 2012 Directions, AIF funds can be opened and established as guarantees. Businesses have commercial forms and short time partnerships. However, in India most AIFs are introduced as recommended by the SEBI. In the case of **Securities and Exchange Boards of India vs. Pan Asia Advisors ltd. & others:**[5] SEBI has the authority to regulate the investors trading and raise the SEBI's regulations in this regard.

Securities and Exchange Board of India (SEBI) is the controller of AIFs. It has made it obligatory for AIF to portray their serially statements. It can apply support token for AIFs by setting up their clear administrative structure. AIFs must organize and develop for at least 2.5% of the corpus esteem (5 Cr. in Indian rupee) of its uncalculated investments sometimes recently looking for the 75% investors consent to lock in a suspension period. As the title recommends, they allow an elective to conventional shapes of interest like bonds, stocks, mutual funds and equity.

Nowadays, AIFs are a rapidly developing investment instrument in India when separated from the mutual funds. Recognition of a number of features such as creating maximum returns than stocks and mutual funds.

Over the final few decades, the AIF application in India has observed remarkable growth, both in the number of funds and amount of capital raised. According to the industry records, the total number of investments made via AIFs is expected to increase at a compound annual growth rate of 25% in the middle of 2022 and 2025. Current trends in the AIFs industry specify an enlarged interest from high net-worth individuals (HNIs), family businesses and institutional investors. According to industry records, personal equity funds and real estate funds are the most important categories in the AIFs in India. Personal equity funds invest in business startups and real estate focus on the investment which are related to the real estate sector. Additionally,

[5] (2015) 14 SCC 77

the Covid-19, a pandemic situation, has focused on the flexibility of the AIFs. AIF have pursued to draw the investments and catch unfold opportunities.

AIF investments can be divided into three categories. Each category has a particular reason and serves dissimilar types of investors. Such securities can be divided under three categories which are given below: -

Category 1: - Startups and Early-stage Ventures.

Category 2: - Real Estate, Personal Equity and unsettled assets.

Category 3: - Hedge Funds and Complex trading plan.

3) SEBI's PROTECTION MEASURES FOR 'AIF' INVESTORS: -

In March 2024, the Securities and Exchange Board of India (SEBI) initiated the various safety measures aimed at sustaining confidence in the security market and protecting the investor interests. So, let us see in detail these important developments. In the case, **Securities and Exchange Board of India (SEBI) vs. Sahara Real Estate Corporation Ltd. and others[6] :** In this case, SC held that in opposition to the Sahara group and conducted it to repay around rupees 24 crore to its investors. The court judgment had important implications for SEBI's protection measures and regulating investment schemes.

- **Expanding Qualified Stock Brokers (QSBs) Framework for Increased Compliance: -** In the past, QSBs were based on the parameters such as active clients, trading volumes, margin responsibility and recommendation under management. Furthermore, SEBI initiated the three extra parameters: compliance score, wrong redressal score and exclusive trading volumes. QSBs not meeting the upgraded criteria will be required to be fixed with strengthened responsibilities for an extra three financial years.

- **Amendment to Circular for Foreign Portfolio Investors (FPIs): -** SEBI reforms the circular for Foreign Portfolio Investors (FPIs) to authorize the extra disclosures for those gathering in specific standards. However, FPIs covering 50% of the Indian equity

[6] AIR 2012 SUPREME COURT 3829, 2012 (10) SCC 603

in assets under management (AUM) inside an associated group are now released from this extra revelation under certain circumstances. Such circumstances include the non-appearance of a recognized supporter in the apex company of the corporate group and the FPIs assets in the group (except Apex Company) but it is not more than 50%. Besides, collective assets in the apex company by similar FPIs must remain under 3% of its entire equity share capital.

- **Introduction of Beta Version of T+0 Rolling Settlement Cycle:** - In January 2023, Market Infrastructure Institutions (MIIs) introduced the T+0 settlement cycle. SEBI accepted the evolution of a substructure for the establishment of the Beta version of the T+0 settlement cycle and other side T+1 settlement cycle on a voluntary basis. In March 2024, SEBI distinctly emphasized its commitment to enforce the market ethics, upgrade market potency and enrich market trust. These protection measures are the important steps for creating the investor warm regulatory structure in the Indian securities market.

4) ROLE OF INSTITUTIONAL INVESTORS IN THE INDIAN INVESTMENT LANDSCAPE

Institutional investors[7] play a very important role in the financial market because they provide capital to the companies as well as provide liquidity to the economical securities which are traded in the market. This capital can be used for fund potency, analysis, progress and other types of activities which help to promote the evolution and enlargement of the organization. The investment landscape provides multiple numbers of options, each having its own features and potential return. Some of the usual investments like bonds, mutual funds, ETFs, real estate and AIFs. The term 'financial landscape' expresses that every person's money is coming inside and every person's money is going outside. Institutional investors are called large organizations such as pension funds, hedge funds and insurance organizations that appoint finance professionals to manage big amounts of money in place of their clients.

Institutional investors' appointment has assisted further better transparency, accountability and sustainability inside in the Indian corporate landscape. The following points play a significant role for institutional investors are given below: -

[7] Market makers

- **Proxy voting and Shareholders Resolutions: -** Institutional investment includes mutual funds and pension funds; passionately take part in such investment in the time of shareholder meetings.

- **Stewardship Codes:** - The Securities and Exchange Board of India (SEBI) established the "Stewardship Code" in 2020. It uplifts the institutional investors to acquire the transparent and responsible investment exercises

- **Institutional Investor Associations: -** Companies like the Association of Mutual Funds in India (AMFI) and the Institutional Investor Advisory Services (IIAS) allows the instructions to the institutional investors concerning their part in corporate governance.

5) CONCLUSION

SEBI is a legal framework and trading controller, which checks the security market in India. The elementary features related to SEBI to safeguards the interest of investors in securities and to encourage and regulate the security market. Security market is the place where the investors can purchase and retail the stocks. In this market, investors can trade their earlier emerging stocks. They help organizations to uplift their amount by making a beginning sale of stocks to the public. However, I would not like to give the impression that in the Indian securities market each thing is good and no need to change and be brightened. The trade market is deeply required to be widened with additional product diversification.