Q.Discuss various methods of issuing of securities in the new issue primary market?

1. Public Issue or Initial Public Offer (IPO):

Under this method, the company issues a prospectus to the public inviting offers for subscription. The investors who are interested in the securities apply for the securities they are willing to buy. Advertisements are also issued in the leading newspapers. Under the Company Act it is obligatory for a public limited company to issue a prospectus or file a statement in lieu of prospectus with the Registrar of Companies.

2. Private Placement:

In this method, the issuing company sells its securities privately to one or more institutional brokers who in turn sell them to their clients and associates. This method is quite convenient and economical. Moreover, the company gets the money quickly and there is no risk of non-receipt of minimum subscription.

3. Offer for Sale:

Under this method, the issuing company allots or agrees to allot the security to an issue house at an agreed price. The issue house or financial institution publishes a document called an 'offer for sale'. It offers to the public shares or debentures for sale at higher price. Application form is attached to the offer document. After receiving applications, the issue house renounces the allotment in favour of the applicants who become direct allottees of the shares or debentures.

This method saves the company from the cost and trouble of selling securities directly to the investing public. It ensures that the whole issue is sold and stamp duty payable on transfer of shares is saved. But the entire premium received is retained by the offerer and not the issuing company.

4. Sale through Intermediaries:

In this method, a company appoints intermediaries like stock brokers, commercial banks and financial institutions to assist in finding market for the new securities on a commission basis. The company supplies blank application forms to each intermediary who affixes his seal on them and distributes the among prospective investors. Each intermediary gets commission on the amount of security applications bearing his seal. However, intermediaries do not guarantee the sale of securities.

This method is useful when a company has already offered 49 per cent of issue to the general public which is essential for listing of securities. The pace of sale of securities may be very slow and there is uncertainty about the sale of whole lot of securities offered through intermediaries. But this method saves the administrative problems and expenses involved in direct selling of securities to the public.

5. Sale to Inside Coterie:

A company may resort to subscription by promoters and directors. This method helps to save the expenses of public issue. Generally, a percentage of new issue of securities is reserved for subscription by the inside coterie who can in this way share the future prosperity of the company.

6. Sale through Managing Brokers:
Sale of securities through managing brokers is becoming popular particularly among new companies. Managing brokers advise companies about the proper timing and terms of the issue of securities. They assist companies in pre-issue publicity, drafting and issue of prospectus and getting stock exchange listing. They also enlist the support and cooperation of share brokers.

Q.Explain the importance or functions of capital markets?
The capital market plays an important role immobilising saving and channel is in them into productive investments for the development of commerce and industry. As such, the capital market helps in capital formation and economic growth of the country. We discuss below the importance of capital market.

The capital market acts as an important link between savers and investors. The savers are lenders of funds while investors are borrowers of funds. The savers who do not spend all their income are called. “Surplus units” and the borrowers are known as “deficit units”. The capital market is the transmission mechanism between surplus units and deficit units. It is a conduit through which surplus units lend their surplus funds to deficit units.

Q.what are the Components of capital Market?
1. New Issue Market:
The new issue market represents the primary market where new securities, i.e., shares or bonds that have never been previously issued, are offered. Both the new companies and the existing ones can raise capital on the new issue marketThe prime function of the new issue market is to facilitate the transfer of funds from the willing investors to the entrepreneurs setting up new corporate enterprises or going in for expansion. Diversification, growth or modernisation. Besides, helping corporate enterprises in securing their funds, the new issue market canalizes the savings of individuals and others into investments.
2. Secondary Market:
The secondary market is a market where existing securities are purchased and sold. Stock market represents the secondary market where existing securities (shares and debentures) are traded; Stock exchange provides an organised mechanism for purchase and sale of existing securities. By now, we have 23 stock approved stock exchanges in our country.

The investors want liquidity for their investments. The securities which they hold should easily be sold when they need cash. Similarly there are others who want to invest in new securities. There should be a place where the securities may be purchased and sold.
3. Financial Institutions:
Special Financial institutions are the most active constituent of the Indian capital market. Such organisations provide medium and long-term loans on easy installments to big business houses Such institutions help in promoting new companies; expansion and development of existing companies and meeting the financial requirement of companies during economic depression.

The need for establishing financial institutions was felt in many countries immediately after the Second World War in order to re-establish their war-shattered economies. In underdeveloped countries, the need for such institutions was much more due to a large number of organisational and financial problems inherent in the process of industrialisation.

Q.Difference between money market and capital market.

Q.what are the instruments in money market?

Treasury Bills (T-Bills)

Issued by the Central Government, Treasury Bills are known to be one of the safest money market instruments available. However, treasury bills carry zero risk. I.e. are zero risk instruments. Therefore, the returns one gets on them are not attractive. Treasury bills come with different maturity periods like 3-month, 6-month and 1 year and are circulated by primary and secondary markets. Treasury bills are issued by the Central government at a lesser price than their face value. The interest earned by the buyer will be the difference of the maturity value of the instrument and the buying price of the bill, which is decided with the help of bidding done via auctions. Currently, there are 3 types of treasury bills issued by the Government of India via auctions, which are 91-day, 182-day and 364-day treasury bills.

Certificate of Deposits (CDs)

A Certificate of Deposit or CD, functions as a deposit receipt for money which is deposited with a financial organization or bank. However, a Certificate of Deposit is different from a Fixed Deposit Receipt in two aspects. The first aspect of difference is that a CD is only issued for a larger sum of money. Secondly, a Certificate of Deposit is freely negotiable. First announced in 1989 by RBI, Certificate of Deposits have become a preferred investment choice for organizations in terms of short-term surplus investment as they carry low risk while providing interest rates which are higher than those provided by Treasury bills and term deposits. Certificate of Deposits are also relatively liquid, which is an added advantage, especially for issuing banks. Like treasury bills, CDs are also issued at a discounted price and their tenor ranges between a span of 7 days up to 1 year. However, banks issue Certificates of Deposits for durations ranging from 3 months, 6 months and 12 months. They can be issued to individuals (except minors), trusts, companies, corporations, associations, funds, non-resident Indians, etc.

Commercial Papers (CPs)

Commercial Papers are can be compared to an unsecured short-term promissory note which is issued by highly rated companies with the purpose of raising capital to meet requirements directly from the market. CPs usually feature a fixed maturity period which can range anywhere from 1 day up to 270 days. Highly popular in countries like Japan, UK, USA, Australia and many others, Commercial Papers promise higher returns as

compared to treasury bills and are automatically not as secure in comparison. Commercial papers are actively traded in secondary market.

Repurchase Agreements (Repo)

Repurchase Agreements, also known as Reverse Repo or simply as Repo, loans of a short duration which are agreed upon by buyers and sellers for the purpose of selling and repurchasing. These transactions can only be carried out between RBI approved parties Repo / Reverse Repo transactions can be done only between the parties approved by RBI. Transactions are only permitted between securities approved by the RBI like treasury bills, central or state government securities, corporate bonds and PSU bonds.

Q.what is primary market?
Q.what is capital market?