MODULE – 4

MONEY MARKET & CAPITAL MARKET IN INDIA

INDIAN MONEY MARKET

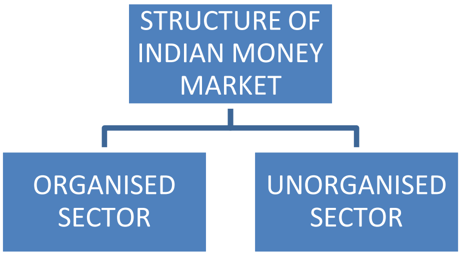
Meaning

The Money Market is a market for lending and borrowing of short-term funds. It deals in funds and financial instruments having a maturity period of one day to one year. It covers money and financial assets that are close substitutes for money. The instruments in the money market are of short term nature and highly liquid.

Q.1 Discuss the structure (OR) components of Indian money market.

The Indian money market consists of two segments, namely organized sector and unorganized sector. The RBI is the most important constituents of Indian money market. The organized sector is within the direct purview of RBI regulation. The unorganized sector comprises of indigenous bankers, money lenders and unregulated non-banking financial institutions.

The structure or components of Indian money market is depicted in the chart 5.1.



- Call and Notice Money Market
- Treasury Bills Market
- Commercial Bills Market
- Market for Certificates of Deposits (CDs)
- Market for Commercial Papers (CPs)
- Repos Market
- Money Market Mutual Funds (MMMFs)
- Discount & Finance House of India (DFHI)

- Indigenous Bankers
- Money Lenders
- Unregulated Non-Bank Financia
- Intermediaries (Chit Funds, Nidhis and Loan Companies)
- Finance Brokers

(A) Organized Money Market Instruments and Features

1. **Call and Notice Money Market:** Under call money market, funds are transacted on overnight basis. Under notice money market funds are transacted for the period between 2 days and 14 days. The funds lent in the notice money market do not have a specified repayment date when the deal is made. The lender issues a notice to the borrower 2-3 days before the funds are to be paid. On receipt of this notice, the borrower will have to repay the funds within the given time. Generally, banks rely on the call money market where they raise funds for a single day.
   The main participants in the call money market are commercial banks (excluding RRBs), co-operative banks and primary dealers. Discount and Finance House of India (DFHI), Non-banking financial institutions such as LIC, GIC, UTI, NABARD etc. are allowed to participate in the call money market as lenders.

2. **Treasury Bills (T-Bills):** Treasury bills are short-term securities issued by RBI on behalf of Government of India. They are the main instruments of short term borrowing by the Government. They are useful in managing short-term liquidity. At present, the Government of India issues three types of treasury bills through auctions, namely – 91 days, 182-day and 364-day treasury bills. There are no treasury bills issued by state governments. With the introduction of the auction system, interest rates on all types of TBs are being determined by the market forces.

3. **Commercial Bills:** Commercial bill is a short-term, negotiable, and self-liquidating instrument with low risk. They are negotiable instruments drawn by a seller on the buyer for the value of goods delivered by him. Such bills are called trade bills. When trade bills are accepted by commercial banks, they are called commercial bills. If the seller gives some time for payment, the bill is payable at future date (i.e. usance bill). Generally the maturity period is upto 90 days. During the usance period, if the seller is in need of funds, he may approach his bank for discounting the bill. Commercial banks can provide credit to customers by discounting commercial bills. The banks can rediscount the commercial bills any number of times during the usance period of bill and get money.

4. **Certificates of Deposits (CDs):** CDs are unsecured, negotiable promissory notes issued at a discount to the face value. They are issued by commercial banks and development financial institutions. CDs are marketable receipts of funds deposited in a bank for a fixed period at a specified rate of interest.
   CDs were introduced in India in June 1989. The main purpose of the scheme was to enable commercial banks to raise funds from the market through CDs. According to the original scheme, CDs were issued in multiples of Rs.25 lakh subject to minimum size of an issue being Rs.1 crore. They had the maturity period of 3 months to one year. They are freely transferable but only after the lock in period of 45 days after the date of issue.

5. **Commercial Papers (CPs):** Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note with fixed maturity. They indicate the short-term obligation of an issuer. They are quite safe and highly liquid. They are generally issued by the leading, nationally reputed, highly rates and credit worthy large manufacturing and finance companies is the public as well as private sector. CPs were introduced in India January 1990. CPs were launched in India with a view to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and also to provide an additional instrument to investors. RBI has modified its original scheme in order to widen the market for CPs.
   Corporates and primary dealers (PDs) and the all India financial institutions can issue CPs. A corporate can issue CPs provided they fulfill the following conditions:

(a) The tangible net worth of the company is not less than Rs.4 crore.
(b) The company has been sanctioned working capital limit by banks or all India financial institutions, and
(c) The borrowed account of the company is classified as a standard asset by the financing institution or bank.

6. **Repos:** A **repo** or **reverse repo** is a transaction in which two parties agree to sell and repurchase the same security. Under repo, the seller gets immediate funds by selling specified securities with an agreement to repurchase the same at a mutually decided future date and price. Similarly, the buyer purchases the securities with an agreement to resell the same to the seller at an agreed date and price. The repos in government securities were first introduced in India since December 1992. Since November 1996, RBI has introduced “Reverse Repos”, i.e. to sell government securities through auction.

7. **Discount and Finance House of India (DFHI):** It was set up by RBI in April 1988 with the objective of deepening and activating money market. It is jointly owned by RBI, public sector banks and all India financial institutions which have contributed to its paid up capital.
   The DFHI deals in treasury bills, commercial bills, CDs, CPs, short-term deposits, call money market and government securities. The presence of DFHI as an intermediary in the money market has helped the corporate entities, banks, and financial institutions to invest their short-term surpluses in money market instruments.

8. **Money Market Mutual Funds (MMMFs):** RBI introduced MMMFs in April 1992 to enable small investors to participate in the money market. MMMFs mobilizes savings from small investors and invest them in short-term debt instruments or money market instruments such as call money, repos, treasury bills, CDs and CPs. These instruments are forms of debt that mature in less than a year.

(B) UNORGANIZED SECTOR OF INDIAN MONEY MARKET

The unorganized Indian money market is largely made up of indigenous bankers, money lenders and unregulated non-bank financial intermediaries. They do operate in urban centers but their activities are largely confined to the rural sector. This market is unorganized because it's activities are not systematically coordinated by the RBI.

The main components of unorganized money market are:

1. **Indigenous Bankers:** They are financial intermediaries which operate as banks, receive deposits and give loans and deals in hundies. The hundi is a short term credit instrument. It is the indigenous bill of exchange. The rate of interest differs from one market to another and from one bank to another. They do not depend on deposits entirely, they may use their own funds.

2. **Money Lenders:** They are those whose primary business is money lending. Money lenders predominate in villages. However, they are also found in urban areas. Interest rates are generally high. Large amount of loans are given for unproductive purposes. The borrowers are generally agricultural labourers, marginal and small farmers, artisans, factory workers, small traders, etc.

3. **Unregulated non-bank Financial Intermediaries:** Theconsist of Chit Funds, Nithis, Loan companies and others.

(a) **Chit Funds:** They are saving institutions. The members make regular contribution to the fund. The collected funds is given to some member based on previously agreed criterion (by bids or by draws). Chit Fund is more famous in Kerala and Tamilnadu.

(b) **Nidhis:** They deal with members and act as mutual benefit funds. The deposits from the members are the major source of funds and they make loans to members at reasonable rate of interest for the purposes like house construction or repairs. They are highly localized and peculiar to South India. Both chit funds and Nidhis are unregulated.

4. **Finance Brokers:** They are found in all major urban markets specially in cloth markets, grain markets and commodity markets. They are middlemen between lenders and borrowers.

Q.2 What are the features of Indian Money Market? OR
Examine the defects of Money Market in India.

Several steps were taken in the 1980s and 1990s to reform and develop the Indian money market. Despite these efforts, Indian money market continues to remain lopsided, thin and extremely volatile. Indian money market is relatively underdeveloped when compared to advanced markets like London and New York money markets. Its main defects are explained below:

1. **Existence of Unorganized Money Market:**This is one of the major defects of Indian money market. It does not distinguish between short term and long term finance, and also between the purposes of finance. Since it is outside the control and supervision of RBI, it limits the RBI's control of over money market.

2. **Lack of Integration:**The Indian money market is broadly divided into two sectors, the organized money market and the unorganized market. The organized market constitutes several institutions such as RBI, State Bank of India, commercial banks, cooperative banks and financial institutions. RBI as an apex body regulates their working. The unregulated sector is not homogenous in itself. It constitutes indigenous bankers, loan companies, money lenders, etc. There is no uniformity in their practices and there is multiplicity of functionaries.

3. **Multiplicity in Interest Rates:** There exists too many rates of interest in the Indian money market such as the borrowing rate of government, deposits and lending rates of cooperative and commercial banks, lending rates of financial institutions, etc. This is due to lack of mobility of funds from one section of the money market to another. The rates differ for funds of same durations lent by different institutions.

4. **Inadequate Funds:** Generally there is shortage of funds in Indian money market on account of various factors like inadequate banking facilities, low savings, lack of banking habits, existence of parallel economy, etc. However, the banking development particularly branch expansion, has improved the mobilization of funds to some extent in the recent years.

5. **Seasonal Stringency of Money:** The seasonal stringency of money and high rate of interest during the busy season (November to June) is a striking feature of Indian money market. There are wide fluctuations in the interest rates from one season to another. RBI has been taking various measures to avoid such fluctuations in the money market by adding money into the money market during the busy season and withdrawing the funds during the slack season.

6. **Absence of Bill Market:** A well organized bill market is necessary for linking up various credit agencies effectively to RBI. The bill market is not yet developed on account of many factors such as the practice of banks keeping a large amount of cash for liquidity purposes, preference for borrowing rather than discounting bills, dependence of indigenous bankers on one another, widespread practice of using cash credit, high stamp duty on usance bill, etc.

7. **Inadequate Credit Instruments:**The Indian money market did not have adequate short term paper instruments till 1985-86. There were only call money and bill markets. Moreover there were no specialist dealers and brokers dealing in the money market. After 1985-86, RBI has introduced new credit instruments such as 182-day treasury bills, 364-day treasury bills, CDs and CPs. These instruments are still in underdeveloped state in India.
   The above defects of Indian money market clearly indicate that it is relatively less developed and has yet to acquire sufficient depth and width. Thus, it cannot be compared with developed money markets such as London and New York money markets.

Q.3 Explain briefly about the reforms undertaken in Indian money market.

The Committee to Review the Working of Monetary System chaired by S. Chakravarty made several recommendations in 1985 to develop Indian money market. As a follow-up, the RBI set up a Working Group on money market under the chairmanship of N. Vaghul, in 1987. Based on the recommendations of Vaghul Committee, RBI initiated a number of measures to widen and deepen the money market. The main measures are as follows.

1. **Deregulation of Interest Rates:** From May 1989, the ceiling on interest rates on the call money, inter-bank short-term deposits, bills rediscounting and inter-bank participation was removed and the rates were permitted to be determined by the market forces. Thus, the system of administered interest rates is being gradually dismantled.

2. **Introduction of New Money Market Instruments:**In order to widen and diversify the Indian money market RBI has introduced many new money market instruments such as 182-days treasury bills, 364-day treasury bills, CDs & CPs. Through these instruments the government, commercial banks, financial institutions and corporate can raise funds through the money market. They also provide investors additional instruments for investments. In order to expand the investor base for CDs and CPs the minimum amount of investment and the minimum maturity periods are reduced by RBI.

3. **Repurchase Agreements (Repos):** RBI introduced repos in government securities in December 1992 and reverse repos in November 1996. Repos and reverse repos help to even out short-term fluctuations in liquidity in the money market. They also provide a short-term avenue to banks to park their surplus funds. Through changes in repo and reverse repo rates RBI transmits policy objectives to entire money market.
4. **Liquidity Adjustment Facility (LAF):** RBI has introduced LAF from June 2000 as an important tool for adjusting liquidity through repos and reverse repos. Thus, in the recent years RBI is using repos and reverse repos as a policy to adjust liquidity in the money market and therefore, to stabilize the short-term interest rates or call rates. LAF has, therefore, emerged as a major instrument of monetary policy.

5. **Money Market Mutual Funds (MMMF):**RBI introduced MMMFs in April 1992 to enable the individual investors to participate in money market. To make the scheme flexible and attractive, RBI has brought about many modifications. The important features of this scheme as of now are:

(i) It can be set up by commercial banks, financial institutions and private sector.
(ii) Individual investors, corporates and others can invest in MMMFs.
(iii) Resources mobilized through this scheme can be invested in money market instruments as well as rated corporate bonds and debentures with a maturity period upto one year.
(iv) The minimum lock in period is now 15 days.

6. **Discount and Finance House of India (DFHI):** In order to impart liquidity to money market instruments and help the development of secondary market in such instruments, DFHI was set up in 1988 jointly by RBI, public sector banks and financial institutions.

7. **Development of Inter-bank Call and Notice Money Market:** The call and notice money market is an inter-bank market the world over and therefore the Narsimham Committee has recommended that we adopt the same in India. However RBI in the past had given permission to non-bank institutions to participate in the call money market as lenders. As per the recommendations of Narsimham Committee RBI in 2001-02 has underlined the need for transforming the call money market into a pure inter-bank money market.

8. **Regulation of NBFCs:** The RBI Act was amended in 1997 to provide for a comprehensive regulation of NBFC sector. According to the amendment, no NFBC can carry on any business of a financial institution, including acceptance of public deposit, without obtaining a Certificate of Registration (CoR) from RBI.

9. **The Clearing Corporation of India Limited (CCIL):** The CCIL was registered on April 30, 2001 under the Companies Act, 1956, with the State Bank of India as the chief promoter. The CCIL clears all transactions in government securities and repos reported on the Negotiated Dealing System (NDS) of RBI.

CAPITAL MARKET IN INDIA

Capital market is the market for medium and long term funds. It refers to all the facilities and the institutional arrangements for borrowing and lending term funds (medium-term and long-term funds). The demand for long-term funds comes mainly from industry, trade, agriculture and government. The central and state governments invest not only on economic overheads such as transport, irrigation, and power supply but also an basic and consumer goods industries and hence require large sums from capital market. The supply of funds comes largely from individual savers, corporate savings, banks, insurance companies, specialized financial institutions and government.

Q.1 Explain the role (OR) Significance of Capital Market in economic development.

Capital market has a crucial significance to capital formation. Adequate capital formation is indispensable for a speedy economic development. The main function of capital market is the collection of savings and their distribution for industrial development. This stimulates capital formation and hence, accelerates the process of economic development.
A sound and efficient capital market facilitates the process of capital formation and thus contributes to economic development. The significance of capital market in economic development is explained below.

1. **Mobilisation of Savings:** Capital market is an organized institutional network of financial organizations, which not only mobilizes savings through various instruments but also channelizes them into productive avenues. By making available various types of financial assets, the capital market encourages savings. By providing liquidity to these financial assets through the secondary markets capital market is able to mobilize large amount of savings from various sections of the people such as individuals, families, and associations. Thus, capital market mobilizes these savings and make the same available for meeting the large capital needs of industry, trade and business.

2. **Channelization of Funds into Investments:** Capital market plays a crucial role in the economic development by channelizing funds in accordance with development priorities. The financial intermediaries in the capital market are better placed than individuals to channel the funds into investments which are more favourable for economic development.

3. **Industrial Development:** Capital market contributes to industrial development in the following ways:
   (a) It provides adequate, cheap and diversified finance to the industrial sector for various purposes.
   (b) It provides funds for diversified purposes such as for expansion, modernization, upgradation of technology, establishment of new units etc.
   (c) It provides a variety of services to entrepreneurs such as provision of underwriting facilities, participating in equity capital, credit rating, consultancy services, etc. This helps to stimulate industrial entrepreneurship.

4. **Modernization and Rehabilitation of Industries:** Capital market can contribute towards modernization, rationalization and rehabilitation of industries. For example, the setting up of development financial institutions in India such as IFCI, ICICI, IDBI and so on has helped the existing industries in the country to adopt modernization and replacement of obsolete machinery by providing adequate finance.

5. **Technical Assistance:** An important bottleneck faced by entrepreneurs in developing countries is technical assistance. By offering advisory services relating to the preparation of feasibility reports, identifying growth potential and training entrepreneurs in project management, the financial intermediaries in the capital market play an important role in stimulating industrial entrepreneurship. This helps to stimulate industrial investment and thus promotes economic development.

6. **Encourage Investors to invest in Industrial Securities:** Secondary market in securities encourage investors to invest in industrial securities by making them liquid. It provides facilities for

continuous, regular and ready buying and selling of securities. Thus, industries are able to raise substantial amount of funds from various segments of the economy.

7. **Reliable Guide to Performance:** The capital market serves as a reliable guide to the performance and financial position of corporate, and thereby promotes efficiency. It values companies accurately and toes up manager compensation to stock values. This gives incentives to managers to maximize the value of companies. This stimulates efficient resource allocation and growth.

Q.2 What is capital market? Explain the structure (OR) composition of capital market in India.

In the financial market all those institutions and organizations which provide medium term and long-term funds to business enterprises and public authorities, constitute the capital market. In simple words, the market which lends long-term funds is called the capital market.

The capital market is composed of those who demand funds and those who supply funds. Thus, the borrowers and lenders in the financial market for medium-term and long-term funds constitute the capital market.

The Indian Capital Market is broadly divided into two categories:

1) The securities market consisting of

(a) The gilt-edged market and (b) The industrial securities market; and

2) The financial institutions (Development Financial Institutions) (DFIs). Thus, the Indian capital market is composed of

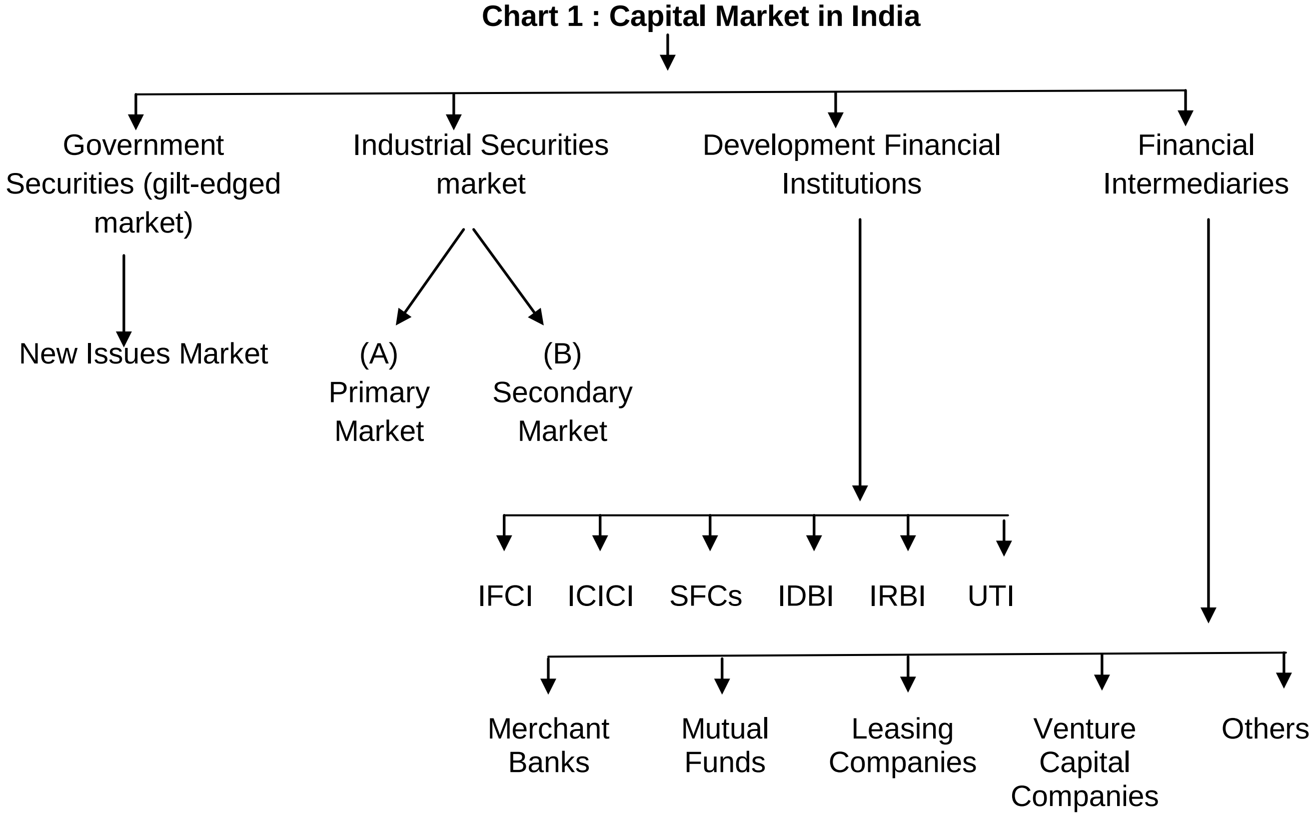
(a) The gilt-edged market or the market for government securities and industrial securities or corporate securities market.

(b) Capital market includes Development Financial Institutions (DFIs) such as IFCI, SFC, LIC, IDBI, UTI, ICICI, etc. They provide medium-term and long-term funds for business enterprises and public authorities.

(c) Apart from the above, there are financial intermediaries in the capital market such as merchant bankers, mutual funds, leasing companies, venture capital companies etc. They help in mobilizing savings and supplying funds to investors.

THE CAPITAL MARKET IN INDIA IS SHOWN BY CHART

Chart 1 : Capital Market in India



(1) Gilt- Edged Market:

Gilt-edged market is also known as the government securities market. As the securities are risk free, they are known as gilt-edged i.e. the best quality securities.

The investors in the gilt-edged market are predominantly institutions. They are required by law to invest a certain portion of their funds in these securities. These institutions include commercial banks, LIC, GIC, and the provident funds.

The transactions in the government securities market are very large. Each transaction may run into several crores or even hundred crores of rupees. Since June 1992, government securities have been mostly issued sealed bid auctions.

RBI plays a dominant role in the gilt-edged market through its open market operations.

Thus, government securities are the most liquid debt instruments.

(2) The Industrial Securities Market:

It is a market of shares, debentures and bonds which can be bought and sold freely.

This market is divided into two categories:

(A) Primary Market:

The new issue market called the primary market and (b) old issue market, commonly known as stock exchange or stock market. It is called the secondary market.

The new issue market is concerned with the raising of new capital in the form of shares, bonds and debentures. Many public limited companies often raise capital through the primary market for expanding their business. It may be noted that the new issue market is important because of its impact on economic growth of the country.

(B) Secondary Market:

The stock exchange market or the secondary market is a market of the purchase and sale of quoted or listed securities. It is a highly organized market for regulating and controlling business in buying, selling and dealing in securities.

(3) Financial Institutions: We have mentioned that there are special financial institutions which provided long-term capital to the private sector in the capital market. These institutions are called Development Financial Institutions.

(4) Financial Intermediaries: The Indian capital market has shown steady improvement after 1951. During the Five-Year Plans, Capital market has witnessed rapid growth. Both the volume of saving and investment have shown phenomenal improvement. In fact, in the last two decades, the volume of capital market transactions has increased substantially. Besides, its functioning has been diversified indicating the growth of the Indian economy.

Q.3 Examine the capital market reforms introduced in India.

The reforms in the capital market are explained below with respect to primary and capital markets in India.

PRIMARY MARKET REFORMS IN INDIA

A number of measures has been taken in India especially since 1991 to develop primary market in India. These measures are discussed below:

1. **Abolition of Controller of Capital Issues:** The Capital Issues (Control) Act, 1947 governed capital issues in India. The capital issues control was administered by the Controller of Capital Issues (CCI). The Narasimham Committee (1991) had recommended the abolition of CCI and wanted SEBI to protect investors and take over the regulatory function of CCI. Thus, government replaced the Capital Issues (Control) Act and abolished the post of CCI. Companies are allowed to approach the capital market without prior government permission subject to getting their offer documents cleared by SEBI.

2. **Securities and Exchange Board of India (SEBI):** SEBI was set up as a non-statutory body in 1988 and was made a statutory body in January 1992. SEBI has introduced various guidelines for capital issues in the primary market. They are explained below.

3. **Disclosure Standards:**Companies are required to disclose all material facts and specific risk factors associated with their projects. SEBI has also introduced a code of advertisement for public issues for ensuring fair and truthful disclosures.

4. **Freedom of Determine the Par Value of Shares:**The requirement to issue shares at a par value of Rs.10 and Rs.100 was withdrawn. SEBI has allowed the companies to determine the par value of shares issued by them. SEBI has allowed issues of IPOs through "book building" process.

5. **Underwriting Optional:** To reduce the cost of issue, underwriting by the issuer is made optional. It is subject to the condition that if an issue was not underwritten and was not able to collect 90% of the amount offered to the public, the entire amount collected would be refunded to the investors.

6. **FIIs Permitted to Operate in the Indian Market:** Foreign institutional investors such as mutual funds and pension funds are allowed to invest in equity shares as well as in debt market, including dated government securities and treasury bills.

7. **Accessing Global Funds Market:**Indian companies are allowed to aces global finance market and benefit from the lower cost of funds. They have been permitted to raise resources through issue of American Depository Receipts (ADRs), Global Depository Receipts (GDRs), Foreign Currency Convertible Bonds (FCCBs) and External Commercial Borrowings (ECBs). Indian companies can list their securities on foreign stock exchanges through ADR./GDR issues.

8. **Intermediaries under the Purview of SEBI:**Merchant bankers, and other intermediaries such as mutual funds including UTI, portfolio managers, registrars to an issue, share transfer agents, underwriters, debenture trustees, bankers to an issue, custodian of securities, and venture capital funds have been brought under the purview of SEBI.

9. **Credit Rating Agencies:** Various credit rating agencies such as Credit Rating Information Services of India Ltd. (CRISIL – 1988), Investment Information and Credit Rating Agency of India Ltd. (ICRA – 1991). Cost Analysis and Research Ltd. (CARE – 1993) and so on were set up to meet the emerging needs of capital market.

SECONDARY MARKET REFORMS

A number of measures have been taken by the government and SEBI for the growth of secondary capital market in India. The important reforms or measures are explained below.

1. **Setting up of National Stock Exchange (NSE):** NSE was set up in November 1992 and started its operations in 1994. It is sponsored by the IDBI and co-sponsored by other development finance institutions, LIC, GIC, Commercial banks and other financial institutions.

2. **Over the Counter Exchange of India (OTCEI):** It was set in 1992. It was promoted by a consortium of leading financial institutions of India including UTI, ICICI, IDBI, IFCI, LIC and others. It is an electronic national stock exchange listing an entirely new set of companies which will not be listed on other stock exchanges.

3. **Disclosure and Investor Protection (DIP) Guidelines for New Issues:** In order to remove inadequacies and systematic deficiencies, to protect the interests of investors and for the orderly growth and development of the securities market, the SEBI has put in place DIP guidelines to govern the new issue activities. Companies issuing capital in the primary market are now required to disclose all material facts and specify risk factors with their projects.

4. **Screen Based Trading:** The Indian stock exchanges were modernized in the 90s, with Computerised Screen Based Trading System (SBTS). It electronically matches orders on a strict price / time priority. It cuts down time, cost, risk of error and fraud, and therefore leads to improved operational efficiency.

5. **Depository System:**A major reform in the Indian Stock Market has been the introduction of depository system and scripless trading mechanism since 1996. Before this, the trading system was based on physical transfer of securities. A depository is an organization which holds the securities of shareholders in electronic form, transfers securities between account holders, facilitates transfer of ownership without handling securities and facilitates their safekeeping.

6. **Rolling Settlement:** Rolling settlement is an important measure to enhance the efficiency and integrity of the securities market. Under rolling settlement all trades executed on a trading day are settled after certain days.

7. **The National Securities Clearing Corporation Ltd. (NSCL):** The NSCL was set up in 1996. It has started guaranteeing all trades in NSE since July 1996. The NSCL is responsible for post-trade activities of the NSE. Clearing and settlement of trades and risk management are its central functions.

8. **Trading in Central Government Securities:**In order to encourage wider participation of all classes of investors, including retail investors, across the country, trading in government securities has been introduced from January 2003. Trading in government securities can be carried out through a nationwide, anonymous, order-driver, screen-based trading system of stock exchanges in the same way in which trading takes place in equities.

9. **Mutual Funds:** Emergency of diversified mutual funds is one of the most important development of Indian capital market. Their main function is to mobilize the savings of general public and invest them in stock market securities. Mutual funds are an important avenue through which households participate in the securities market.

Q.4 Examine the Role / Significance of SEBI.

SEBI was established as a non-statutory board in 1988 and January 1992, it was accorded statutory status. The regulatory powers of SEBI were increased in January 1995. It has now become a very important constituent of the financial regulatory framework in India. The SEBI is under the overall control of the Finance Ministry.

1. **Promotion and Development of Capital Market:**One of the important role of SEBI is the promotion and development of the capital market. It protects the rights and interests of investors, especially the individual investors. It prevents trading malpractices. Its regulatory measures are meant for the healthy development of capital markets.

2. **Regulatory Role:** Another important role of SEBI is the regulation of the security markets in India. The SEBI can frame or issue rules, regulations, directives, guidelines, norms with respect to primary and secondary markets.

3. **Protection of Interest of Investors:** An important role of SEBI is the protection interest of investors in securities. SEBI has introduced various measures to protect the interests of investors. To ensure no malpractice takes place in the allotment of share, a representative of SEBI supervises the allotment process.

4. **Investor's Education:** SEBI has a role of educating the investors about the securities market. It issues advertisements from time to time to enlighten the investors on various issues related to the securities market and of their rights and remedies.

5. **Investor's Grievances Redressal:** SEBI plays another role of redressing the investor's grievances. SEBI has introduced an automated complaints handling system to deal with investor complaints. The Investor Grievances Redressal and Guidance Division of SEBI assists investors who want to make complaints to SEBI against listed companies.

6. **Primary Market Policy:** SEBI looks after all the policy matters and regulatory issues with respect to primary market. It is responsible for vetting of all the prospectuses and letters of offer for public and right issues, for co-ordinating with the primary market policy, for registration, regulation and monitoring of issue related intermediaries.

7. **Secondary Market Policy:** SEBI is responsible for all policy and regulatory issues for secondary market and new investment products. It is also responsible for registration and monitoring of members of stock exchanges, administration of some of the stock exchanges and monitoring of price movements and insider trading.

8. **Institutional Investment Policy:** SEBI look after institutional investment policy with respect to domestic mutual funds and Foreign Institutional Investors (FIIs). It also looks after registration, regulation and monitoring of FIIs and domestic mutual funds.

9. **Facilitates Mobilisation of Resources:** The SEBI plays an important role in facilitating an efficient mobilization and allocation of resources through the securities market, stimulating competition and encouraging innovations.