Basics of Security Market & Account Opening

Introduction to Securities Market

SEBI: Safeguarding Investor Interests in India's Securities Market
The Securities and Exchange Board of India (SEBI) was established in 1992 as a statutory body, with the objective of regulating the securities market and safeguarding the interests of investors. SEBI oversees stock exchanges, commodity derivative exchanges and depositories. Currently, the four primary legislations governing the securities market are as follows:

A) The SEBI Act, 1992, which gives SEBI with statutory powers to (i) safeguard the interests of investors in securities, (ii) foster the development of the securities market, and (iii) regulate the securities market.
B) The Companies Act, 2013, outlines regulations for the issuance, allotment and transfer of securities, along with related matters concerning public issues of securities.
C) The Securities Contracts (Regulation) Act, 1956, governs the recognition and regulation of transactions in securities within a stock exchange.
D) The Depositories Act, 1996, facilitates the electronic maintenance and transfer of ownership of demat shares.

Investors' Guide to Securities and Securities Market
Securities refer to a wide range of investments, including stocks, bonds, investment contracts, notes and derivatives. For instance, equity shares, commonly known as shares, signify ownership in a company, entitling shareholders to dividends and voting rights at company meetings. Debt securities, such as debentures or bonds, represent borrowed capital that must be repaid to investors with interest. Derivatives are financial contracts whose value is derived from an underlying asset, like shares or commodities.

The securities market facilitates the issuance and trading of securities. Companies raise capital by issuing securities to investors, while investors can buy or sell securities such as shares and bonds. Once issued, securities are listed on recognised stock exchanges. The securities market operates within the broader capital market, serving as an avenue for companies to raise funds and for investors to participate in financial markets.

- **Primary Market**: Primary Market is also known as the new issues market because it is here that securities are created. In this market, companies or institutions float new stocks and bonds to the public for the first time during the primary distribution. The funds raised from these sales primarily go to the issuer. Unlike the secondary market, where investors buy and sell from one another, the primary market allows investors to buy securities directly from the issuer.

Two primary types of issuers of securities are:

- **Corporate Entities**: Companies issue shares, bonds, and debentures. These securities represent ownership or debt obligations of the company and are traded in the financial markets.

- **Government**: Both central and state governments issue debt securities such as dated securities and treasury bills to get funds to finance government operations and manage liquidity.

Public Issue: Public issue of shares can be categorised as follows:

- **IPO:** An Initial Public Offering (IPO) means that a company is offering its shares to the public for the first time. IPO can take the following forms:

  Fresh Issue: During a fresh issue, the company issues new shares to public investors. These funds are raised and directed to the company.

  Offer for Sale: In an offer for sale, existing shareholders (such as promoters or financial institutions) sell their holdings to the public. The funds from investors go to the sellers of the shares, not directly to the company.

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- **Follow on Public Offer:** It refers to a subsequent offering by a company that has previously conducted an IPO, issuing new securities to the public.

  Preferential: In this type of issuance, securities are allocated to a specific group of investors, including promoters, strategic investors and employees. Unlike public offerings, preferential issues are not made available to the general public.

  Rights: A rights issue occurs when a company offers its existing shareholders the opportunity to buy newly issued shares in proportion to their current shareholding.

  Bonus Issue: A bonus issue involves the issuance of additional shares to existing shareholders. These bonus shares are distributed in proportion to their current shareholding, without any additional cost. It’s a way for companies to reward shareholders without affecting their financial position.

Understanding the Role of Market Infrastructure Institutions
To maintain the efficiency, transparency and integrity of the financial ecosystem, there are several market infrastructure institutions. These institutions not only ensure the smooth functioning of the financial system but also ensure compliance with established regulatory norms and standards.

- **Stock Exchanges:** Stock exchanges serve as platforms where securities, such as stocks, bonds and derivatives, are bought and sold. They provide a regulated marketplace for investors to trade securities, facilitating price discovery and liquidity in the market. The list of SEBI recognised stock exchanges in India is available on the link: https://www.sebi.gov.in/intermediaries.html. The major nationwide stock exchanges in India are BSE Limited (BSE), National Stock Exchange of India Limited (NSE), and Metropolitan Stock Exchange of India Limited (MSE).

- **Depositories:** Depositories play an important role in the securities market by holding investors' securities in dematerialised or electronic form. They offer demat services to investors through their network of Participants (DPs). In India, there are two main depositories: NSDL and the CSDL. They eliminate the need for physical share certificates, reducing paperwork and operational risks. Each depository has registered DPs, similar to branches of banks. These DPs offer a range of services to investors. These services include opening and maintaining demat accounts, facilitating the demat of shares, and providing other related services to streamline the management of securities holdings.

- **Clearing Corporations:** Clearing corporations ensure the smooth settlement of trades executed on stock exchanges. Their primary function is to provide a guarantee for the settlement of these trades. In simple words, clearing corporations assure that every buyer will receive the securities they have bought, and every seller will receive payment for the securities they have sold. By acting as intermediaries between buyers and sellers, clearing corporations help reduce counterparty risks and enhance market integrity, thereby fostering confidence in the securities market.

Behind the Scenes: Understanding the Role of Market Intermediaries
Market intermediaries play a vital role in facilitating the smooth operation of both primary and secondary markets. These intermediaries help in:

- Executing orders for buying or selling securities
- Handling transactions involving securities
- Providing relevant information related to securities trading.

Key intermediaries include stock brokers, participants, merchant bankers, share and transfer agents and registrars. All these intermediaries are registered with SEBI and are mandated to adhere to prescribed norms to safeguard investors' interests. A comprehensive list of SEBI-recognised market intermediaries can be accessed on the following link: https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognised=yes.

Account Opening Process

A Guide to Investment Through Primary Market
When a company offers shares to the public, it announces a public offering. Individuals interested can apply by submitting the necessary application form. Issuing securities requires adherence to specific rules and regulations. Shares are allotted in accordance with these regulations and credited to the applicant's demat account held with a Depository Participant. Allotment occurs in dematerialised form. This means they exist electronically rather than as physical certificates. Investors have the choice to convert to physical shares. Following the public offer's closure, allotted shares are listed on Stock Exchanges within 3 working days. The listing allows these shares to be traded by investors in the secondary market.

Your Guide to the Process of Investing in the Primary Market

- **Complete the Online / Offline Application Form:** During a public offer, you can buy shares directly from the issuing company by filling out an **online / offline** application form and making payment within the specified period. You need to provide your personal details such as name, address, and contact number along with your bank details. You also need to mention the number of shares you want to buy.

- **Make the Payment:** Investors keen on participating in the IPO can apply through Application Supported by Blocked Amount (ASBA) or Unified Payment Interface (UPI) for payment. Once the application is submitted, the invested amount is blocked until shares are allocated.

- **After IPO Closure, Shares are Credited:** Once the IPO is over, it usually takes three business days for the listing process to finalise. Shares are then credited to investors' demat accounts and the funds are deducted from their bank accounts. If for some reason shares aren't allocated, the blocked funds are released.

Application Supported by Blocked Amount (ASBA): Simplifying IPO Investments
Investors have a convenient option to apply for securities in IPOs through ASBA. With ASBA, the amount equivalent to the price of the applied shares is blocked in the investor's account until allotment. Once

the shares are allotted, the necessary amount is deducted from the account. The blocked funds continue to earn interest. There is no refund needed in case of non-allotment. This completely eliminates the hassle of sending physical cheques for IPO applications. You can easily find the list of banks facilitating ASBA on SEBI's website, ensuring a seamless experience for investors. Additionally, investors can use UPI as a payment mechanism for investing in IPOs.

Exploring the Process of Investment in the Secondary Market
After setting up a trading or broking account with a recognised stockbroker, you can buy or sell shares of companies listed on the stock exchange. You can do this by visiting the broker’s office in-person or applying online. Most brokers offer an online platform accessible via their website or mobile app. Those who prefer phone-based transactions can use the broker’s Call & Trade service.