



Capital Market – Functions, Structure, Intermediaries, Developments

Table of Contents
What is Capital Market?
Functions of Capital Market
Structure of Capital Market
Difference between Capital Market and Money Market
Role of SEBI in Capital Market
Recent Developments in the Indian Capital Market

What is Capital Market?

Capital markets, commonly referred to as the stock markets have been in existence for centuries. The British East India Company was the first company to invite the public to buy shares in the company. Since then, over the years, markets have gone through tremendous changes. The way the market works, the asset classes, the framework of the exchanges and everything has been evolving over time. The changes have been brought in gradually according to the convenience of the investors and market participants. Also in order to prevent market participants to take undue advantage of information in order to

96 MISCELLANEOUS

If you wish to become an active participant in the markets, having rudimentary knowledge is of critical importance.

Elearnmarkets today will tell you [how the Indian Capital Market works](#). We will discuss the functions of the stock market and who are the intermediaries. Then we will move on to the structure of the capital markets in India and finally recognize the role of the Securities Exchange Board of India (SEBI) in our stock market scenario.

Functions of Capital Market

While from a broader perspective, Capital Markets is viewed as a market of financial assets with long or infinite maturity, it actually plays a very important role in mobilizing resources and allocating them to productive channels. So it can be said that the process of economic growth of a country is facilitated by the Capital Markets. The important functions and significance of the markets have been discussed below: –

1. Economic Growth: The Capital Markets help to accelerate the process of economic growth. It reflects the general condition of the economy. Capital Market helps in the proper allocation of resources from the people who have surplus capital to the people who are in need of capital. So, we can say that it helps in the expansion of industry and trade of both public and private sectors leading to a balanced economic growth in the country.

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2. Promotes Saving Habits: After the development of Capital Markets, the taxation system, and the banking institutions provide facilities and provisions to the investors to save more. In the absence of Capital Markets, they might have invested in unproductive assets like land or gold or might have indulged in unnecessary spending.

3. Stable and Systematic Security prices: Apart from the mobilization of funds, the Capital Markets helps to stabilize the prices of stocks. Reduction in the speculative activities and providing capital to borrowers at a lower interest rate help in the stabilization of the security prices.

4. Availability of Funds: [Investments are made in Capital Markets](#) on a continuous basis. Both the buyers and sellers interact and trade their capital and assets through an online platform. Stock Exchanges like NSE and BSE provide the platform for this and thus the transactions in the capital market become easy.

Types of Capital Market:

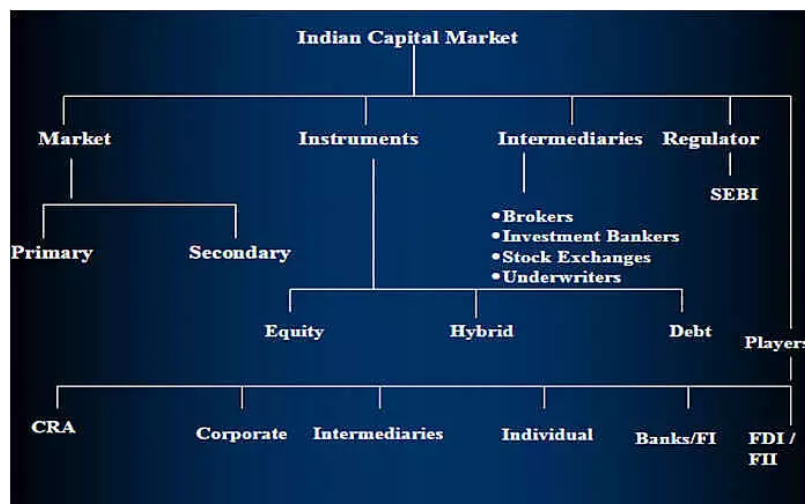
The capital market is mainly categorized into:

- **Primary Market:** The primary market mainly deals with new securities that are issued in the stock market for the first time. Thus it is also known as the new issue market. The main function of the primary market is to facilitate the transfer of the newly issued shares from the companies to the public. The main investors in this type of market are financial institutions, banks, HNIs, etc.
- **Secondary Market:** It is the market where the trading of the securities actually takes place, thus it is also referred to as the stock market. Here the buying and selling of securities take place, The existing investors sell the securities and new investors buy the securities.

“The stock market is the story of cycles and of the human behaviour that is responsible for overreactions in both directions.”– **Seth Klarman**

Structure of Capital Market

The capital market in India consists of the following structure:



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There are mainly two types of instruments which are traded in the capital market, which are:

1. **Stocks:** Stocks are sold and bought over a stock exchange, They represent ownership in the company and the buyer of the share is referred as the shareholder.
2. **Bonds:** The debt securities which are traded in the capital market are known as the bonds. Companies issue bonds for in order to raise capital for the expansion of the business and growth.

Features of Capital Market:

Here are the features of Capital Market:

1. Serves as a link between Savers and Investment Opportunities:

Capital market serves as a crucial link between saving and investment process as it transfers money from savers to entrepreneurial borrowers.

2. Long term Investment:

It helps the investors to invest their hard earned money in long term investments.

3. Helps in Capital formation:

Capital market offers opportunities for those investors who have surplus amount of money and want to park their money in some type of investment and also take the benefit of the power of compounding.

4. Helps Intermediaries:

While transferring of shares and money from one investor to another, it takes help of intermediaries like brokers, banks etc. thus helping them in conducting their business.

5. Rules and Regulations:

The capital markets operate under the regulation and rules of the Government thus making it a safe place to trade.

Example of Capital Market:

Suppose a company say ABC requires capital for expanding its business, so it plans to raise the required fund from the public by issuing new securities in the primary market.

After issuing the new securities, the people who are interested in buying those shares after doing research of the company, buy those shares through the **Initial Public Offering (IPO) process**.

After the initial buying, it starts trading in the secondary market, where the existing buyers and sellers start trading that securities.

Capital Market Intermediaries

Financial intermediaries are the organizations which help in the transfer or channeling of funds from those who have surplus funds to those who are in need of it. They act as a middleman in connecting the surplus parties to the deficit ones. A classic example can be a bank which accumulates bank deposits and uses them to provide bank loans.

The main Financial Intermediaries of India include:

- Stock Exchanges: These include the NSE (National Stock Exchange), BSE (Bombay Stock Exchange), MCX (Multi Commodity Exchange), etc
- Banks
- Insurance Companies
- Pension Funds
- Mutual Funds

Difference between Capital Market and Money Market

We have provided you the answer to this question in the table below:

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Role of SEBI in Capital Market

The [Securities Exchange Board of India \(SEBI\)](#) regulates the functions of the Securities Market in India. It was set up in 1988 but didn't have any legal status until May 1992, when it was granted powers to legally enforce its control over the financial market intermediaries. With the bloom of the scale of actions in the financial markets, there were a lot of malpractices taking place. Practices like a false issue, delay in delivery, violation of rules and regulations of stock exchanges are on a rise. In order to curb these malpractices, the Govt. of India decided to set up a regulatory body known as the Securities Exchange Board of India (SEBI).

The roles and objectives of SEBI are elaborate and have been described as below:

- Regulation of the activities of the stock market
- Protecting the rights of investors
- Ensuring the safety of the investments.
- To prevent malpractices and fraudulent activities.
- To develop a code of conduct for the intermediaries such as brokers, mutual fund sellers etc.

Recent Developments in the Indian Capital Market

The Indian Capital Markets have been going through various developments over the years and the most significant of them have been listed below: -

1. New Measures of Risk Management: Investments in Capital Markets are exposed to various risks. Though some are systematic risks, others happen as result of unsystematic market activities.

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5

relative reduction in the volatility of the prices.

- **Circuit Breakers:** Circuit breakers were introduced to reduce large sell-offs and panic selling. Sometimes it is also called a “collar”. If an Index or a particular stock rises or falls a certain percentage of 10%, 15% or 20%, trading is halted by the exchange in that stock or index for a certain period of time to curb the panic and check for market manipulations.

2. Investor Awareness Campaign: To make the markets more secure for the investors, SEBI introduced the Investor Awareness Campaign by making an [official site](#) for this.

3. Investigations: In case of any violation of the rules and regulations of the SEBI Act 1992, the investigation is carried out by SEBI.

4. T + 2 Settlement Cycle: Currently in the Indian Capital market, the settlement cycle is in the “T+2” cycle. Here, ‘T’ means the trading day and the ‘T+2’ settlement means the settlement and delivery of the shares takes place in the 2nd trading day after the trade takes place

5. Ban on Insider Trading: Individuals possessing confidential information of a particular company can use the information to unethically profit from the stock markets. SEBI has made it clear and mandatory to restrict all kinds of insider trading in the Indian Capital Markets.

Frequently Asked Questions

What is the difference between Money Market and Capital Market?

The money market trades usually in the short term debt whereas the capital market trades in both stocks and bonds. Together the capital market and the money market comprises of the financial market.

What are capital market instruments?

The capital market instruments include equity shares, debentures, bonds, preference shares, etc. The main instruments that are traded in the money market are T-bills, commercial paper, and certificates of deposit.

How can I start learning about capital market?

You can start learning about the capital market through the various courses available on our platform like Basics of Financial markets. You can also read our blogs and watch videos on our Youtube channel related to this subject.

Bottomline

With the ever-changing regulations laid by SEBI and omnipresent opportunities, understanding capital markets can sometimes become as complex as solving a Rubik’s cube.

To construct a multi-storeyed building, the base has to be made as sturdy as possible. Similarly, to eventually become successful in the bourses, one needs to understand the basic concepts from its very roots.

After all, who doesn’t aspire to be the next Charlier Munger or Warren Buffet of their generation? Let us all start walking on the path which will lead us closer to our goal.