

Unit-I

Lecture-4

FUNCTIONS OF NEW ISSUE MARKET

The main functions of a new issue market can be divided into new project.

1. Origination.

It refers to the work of investigation analysis and processing of new project proposals. It starts before an issue is actually floated in the market. This function is done by merchant bankers who may be commercial banks, all India financial institutions or private firms. At present, financial institutions and private firms also perform this service which is highly important as the success of the issue depends, to a large extent, on the efficiency of the market.

2. Underwriting.

It is an agreement whereby the underwriter promises to subscribe to a specified number of shares or debentures or a specified amount of stock in the event of public not subscribing to the issue. If the issue is fully subscribed, then there is no liability for the underwriter. If a part of share issues remains unsold, the underwriter will buy the shares. Thus, underwriting is a guarantee for marketability of shares. There are two types of underwriters in India - Institutional (LIC, UTI, IDBI, ICICI) and Non - institutional are brokers.

3. Distribution.

It is the function of sale of securities to ultimate investors. This service is performed by specialized agencies like brokers and agents who maintain a regular direct contact with the ultimate investors.

SECONDARY MARKET

Secondary market is a market for secondary sale of securities. In other words, securities which have already passed through the new issue market are traded in this market. Generally, such securities are quoted on the Stock Exchange and it provides a continuous and regular market to buying and selling of securities. This market consists of all stock exchanges recognised by the Government of India. The stock exchanges in India are regulated under the Securities Contracts (Regulation) Act 1956. The Bombay Stock Exchange is the principal stock exchange in India which sets the tone of the other stock markets.